FOREIGN AFFAIRS

MAY/JUNE 1996

Workers & the World Economy

"The world may be moving inexorably toward one of those tragic moments that will lead historians to ask, why was nothing done in time?" — ETHAN KAPSTEIN

CHINA AFTER DENG • WILLIAM OVERHOLT

DEALING WITH RUSSIA • JACK MATLOCK, JR.

UKRAINE'S STRUGGLE • MROZ AND PAVLIUK

A New Trade Summit *Fred Bergsten*

For an Atlantic Union *Charles Kupchan*

Clinton's Irish Surprise *Joseph O'Grady*

The Myth of Post–Cold War Chaos

John Ikenberry

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FOREIGN AFFAIRS

MAY/JUNE 1996
VOLUME 75, NUMBER 3

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An Irish Policy Born in the U.S.A. *Joseph O'Grady* 2

Bill Clinton is the first U.S. president since Andrew Johnson to support the Irish strongly against Great Britain—in this case, over Northern Ireland. Born of competition for Irish-American votes, the policy has some declaring the end of the Anglo-American "special relationship."

The Case for Mexico's Rescue
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The U.S.-led effort to revive the peso staved off a Great Depression in Mexico. The Mexican economy is turning the corner and paying off its debt to the United States. Mexico was not broke last year; it faced a liquidity crisis. Clinton's action ensured that economic reform in Mexico—and other developing nations—continues.

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Workers and the World Economy *Ethan B. Kapstein* 16

Not everyone is a winner in the global economy. Unemployment is high in Europe and inequality is rising in the United States as growth proves disappointing and foreign competition drives wages down. While economists debate causes and officials fret over inflation, protectionism threatens world trade. Postwar policymakers, learning from the upheaval of the 1930s, struck a deal with workers. Bretton Woods and Dumbarton Oaks would foster global commerce, and the International Monetary Fund and domestic public policy would make sure that everyone gained. Stagflation in the 1970s undermined this social contract. Policymakers today must abandon their fiscal stringency, or more unpleasant leaders may rise.

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Moscow with a Soviet hangover tests the patience even of those who most wish to engage it. As Chechnya festers, privatization lags, and the world contemplates the possibility of a communist president in the Kremlin dreaming of empire, some ridicule the notion of partnership. Russian chauvinists paint America as the enemy, but the interests of the two countries after the Cold War are compatible. The West should focus its attention—and Russia's—on common interests like nonproliferation of nuclear weapons, regional peace, and full participation in the world economy. America should deal rationally with irrationalities in a nation finding its way.

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Ukraine has yet to solve the challenge of life after communism. Hyperinflation is just a memory and democracy is well entrenched, but production is declining, state industries remain unsold, and investors have largely stayed away. With nationalists ascendant in Russia, Ukraine needs Western money and diplomatic backing to preserve its independence and keep reform on track. A free, democratic Ukraine can serve as a model for Russia, prevent a new Soviet Union, and promote stability among its neighbors. A civil war between its Russified east and its more Ukrainian west, or its absorption into a new Russian empire, would reverberate throughout Europe.

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China is headed in the right direction. Deng's successors cannot achieve his stature, and the more stable and secure China remains, the faster power will devolve to a more liberal generation. As in other Asian nations, economic development will foster political liberalization, as well as a capitalist Hong Kong and an independent Taiwan. Though decentralization is stressful, China does not suffer from the structural weaknesses that undermined the Soviet Union. Corruption and human rights abuses are severe, but citizens can vote in competitive local elections and change jobs as they wish. China should be permitted to continue a liberation unprecedented in history.

The Myth of Post–Cold War Chaos *G. John Ikenberry* 79

Stop searching for order. The international structure established by the liberal democracies after World War II is still in place, and in many ways stronger than ever. Containment got most of the attention, but the liberal powers' agreement to manage trade, security, and other big matters cooperatively has been more durable, and more successful than most recognize. Besides, the order is deeply rooted in the American experience of democracy and constitutionalism. It shaped the Germany and Japan of today, and now most of the rest of the world wants to join.

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The West has triumphed over its adversaries, but all is not well in the realm. Its voters are unhappy, its politics adrift. Now is not the time to pursue ambitious plans that would simultaneously deepen and broaden existing institutions. The West must lock in and eventually extend the greatest achievement of the past century: the creation of a community of democratic states among which war is unthinkable. The mechanism would be a transatlantic union committed to a single market and collective security.

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from remaining their privilege alone, rich Northern countries should strike a bargain with poorer ones: low tariffs for greater market access. The grander the initiative, the greater the chance of success, particularly now that the United States is in danger of backsliding. Since export industries offer higher pay and more stable jobs, a firm date for free trade can solve America's most pressing problem, stagnating wages and the attendant social ills.

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The articles in Foreign Affairs *do not represent any consensus of beliefs. We do not expect that readers will sympathize with all the sentiments they find here, for some of our writers will flatly disagree with others; but we hold that while keeping clear of mere vagaries* Foreign Affairs *can do more to inform American public opinion by a broad hospitality to divergent ideas than it can by identifying itself with one school. We do not accept responsibility for the views expressed in any article, signed or unsigned, that appears in these pages. What we do accept is the responsibility for giving them a chance to appear.*

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MANUSCRIPTS SHOULD BE SENT TO: 58 East 68th Street, New York, NY 10021. The Editors will consider all manuscripts received, but assume no responsibility regarding them, and will only return materials accompanied by appropriate postage. Facsimiles will not be accepted as final submissions.

SUBSCRIPTIONS: Price for subscriptions, U.S., $44.00, Canada $54.00, other countries via air $79.00 per year. To subscribe, write *Foreign Affairs*, P.O. Box 420235, Palm Coast, FL 32142-0235. To resolve subscription problems, call (800) 829-5539.

Replacement copies are available to subscribers at no charge until the next issue is published. Thereafter, back issues are $10.00 each. GST number R127686483.

ADVERTISING: For rates and schedules contact the Advertising Manager, (212) 734-0400.

Foreign Affairs is a member of The Leadership Network. Contact Fox Associates, New York, NY, (212) 725-2106. FAX: (212) 779-1928.

Foreign Affairs is a member of the Audit Bureau of Circulations and the Magazine Publishers of America.

REPRINTS AND PERMISSIONS: Write *Foreign Affairs*, Reader Services, 58 East 68th Street, New York, NY 10021. FAX: (212) 861-2759.

PRINTED IN THE UNITED STATES OF AMERICA

Foreign Affairs is published six times annually. © 1996 Council on Foreign Relations, Inc.

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Comments

REUTERS/ARCHIVE PHOTOS

Senator Edward Kennedy and his sister, Jean Kennedy Smith, the U.S. ambassador to Ireland, congratulate President Clinton at a ceremony in New York where he was named Irish-American of the Year.

The influence of Irish-Americans on the White House has not been this strong in more than a century.

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An Irish Policy Born in the U.S.A.

Clinton's Break with the Past

Joseph O'Grady

Rarely in the history of Anglo-American relations has the White House overtly supported Irish demands against Great Britain on the Irish Question. The one clear instance—until recently—was President Andrew Johnson's courting of New York City's Irish-Americans, who were considered a swing vote in the 1866 midterm congressional elections. Battered by a hostile Congress, Johnson attempted to win the votes he desperately needed by allowing the United States to be used as a fundraising center and staging ground for an Irish-American invasion of Canada. His move had the added benefit of pandering to lingering American resentment over Britain's aid to the Confederacy during the Civil War. The far-fetched invasion scheme, a bid to make Irish independence the ransom for the return of Canada, failed (as did Johnson's presidency). In its aftermath, U.S.-British differences remaining from the Civil War were resolved by the Washington Treaty of 1871.

In the 130 years between Presidents Johnson and Clinton, the Irish in America were unable to duplicate such influence over the White House. Anglo-Irish clashes were frequent and often violent, but even when anti-British agitation in Ireland was most intense, Irish-Americans could do no more than pressure the U.S. Congress to pass resolutions in support of Irish aspirations and on occasion prevent ratification of Anglo-American agreements. Those congressional successes, however, had no significant impact on the decisions of the executive branch—that is, until Bill Clinton entered the White House.

GETTING THE IRISH VOTE

The Arkansas politician's involvement in the Irish Question began, like many other Clinton initiatives, during the 1992 presidential primary campaign. In March of that year, President George Bush talked to Irish leaders at the annual Saint Patrick's Day ceremonies in Washington about the "troubles" in Northern Ireland. However, he only expressed a personal concern for the problems there. He said he was willing to help find a solution but neither he nor the United States could dictate one. Those involved would have to reach an accord among themselves.

JOSEPH O'GRADY is Professor of American history at La Salle University.

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Bush's position had long been the American policy, but by 1992 a new spirit had emerged in the Irish-American community. Both Representative Joseph Kennedy (D-Mass.) and Boston Mayor Ray Flynn condemned Bush for not taking a more active role in the Irish struggle and tried to make his policy an issue in the presidential primaries. While Bush was sidestepping any discussion of direct U.S. involvement in the Irish troubles, Clinton was campaigning for the Connecticut and New York primaries. In the midst of those campaigns, John Dearie, an assemblyman from the Bronx, was organizing a forum sponsored by Irish-Americans at which the Democratic presidential candidates would discuss Irish issues. Clinton, even after the forum was rescheduled to accommodate his schedule, said he would be unable to attend.

Neither Clinton nor his leading opponent, former California governor Jerry Brown, had shown much interest in or knowledge of Irish issues before the Connecticut primary, but its results changed that. Brown narrowly beat Clinton, 37 percent to 36 percent, and carried 40 percent of white Catholic voters, to Clinton's 35 percent. White Catholics constituted 47 percent of the voters in the primary. In an about-face, Clinton agreed to attend the Irish-American forum.

At the April 5 forum, two days before the New York primary, both Brown and Clinton said they would appoint a special envoy to Northern Ireland, pressure the British on human rights violations there, and issue a visa to Gerry Adams, president of Sinn Fein, the political arm of the Irish Republican Army (IRA). Adams had been denied one for 20 years. They also offered to grant political asylum hearings in extradition cases that involved suspected IRA members living in the United States, support a more open immigration policy, and endorse the MacBride Principles against employment discrimination in Northern Ireland. The audience could not believe their ears; they had never heard such direct statements in support of the Irish agenda from mainstream presidential candidates.

Clinton had to endorse those ideas once Brown did so. He had to make inroads among Irish and Roman Catholic voters, to whom Brown could appeal as a Catholic, a former Jesuit seminarian, and a descendant of a Tipperary clan. Whether or not his adoption of the Irish agenda gained him votes, Clinton won the New York primary, giving his campaign a gigantic boost. To ensure that he remembered his remarks at Dearie's forum, later that year its organizers created a campaign organization, Irish-Americans for Clinton and Gore.

THE FINAL PROMISES

In late October, as the presidential campaign drew to a close, Clinton, under pressure to clarify his views on Irish issues, wrote a public letter to Bruce Morrison, co-chairman of Irish-Americans for Clinton and Gore, in which he repeated his earlier promises. But he also pledged that "a Clinton administration will take a more active role" in talks on Northern Ireland and tell the British to reduce job discrimination against Catholics there and to "establish more effective safeguards against the wanton use of lethal force and against further collusion between the security forces and Protestant paramilitary groups." The letter was written with the advice of Nancy Soderberg, a former aide to Senator Edward Kennedy (D-Mass.)

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who was serving on Clinton's campaign staff as a foreign policy adviser.

When Clinton won the presidency, both London and Dublin were troubled because his campaign pledges pointed to a more active U.S. role in Northern Ireland. The concern in both capitals was heightened by the new president's appointment of Jean Kennedy Smith as ambassador to Ireland. She is the widowed sister of Edward Kennedy and the aunt of U.S. Representatives Joseph Kennedy (D-Mass.) and Patrick Kennedy (D-R.I.), all of whom relied on Irish-American voters for their political success.

Smith also had personal connections to the problems in Northern Ireland. She was a friend of John Hume, the leader of the Social Democratic and Labour Party there, and her niece, Mary Courtney Kennedy, was romantically involved with Paul Michael Hill, who had been convicted of bombing two pubs in England in 1974. He was released in 1989 after serving 15 years in British jails when it was revealed that the British police had tampered with evidence. On June 24, 1993, the new ambassador submitted her credentials to Irish President Mary Robinson. Three days later, Mary Courtney Kennedy married Paul Hill.

Despite his campaign pledges and the promise of a more active role for the American ambassador in Dublin, Clinton followed the traditional U.S. policy toward Northern Ireland in 1993. He twice refused to grant Gerry Adams a visa and avoided naming a special envoy. Afforded few opportunities to act on the Irish troubles, Clinton concentrated on his number one campaign pledge, to look after things at home.

A MAJOR DISAGREEMENT

By the end of that year, however, the character of the Northern Ireland dispute had changed dramatically. A series of developments, including secret talks—between Hume and Adams, between the British government and the IRA, and between Dublin and London—culminated in the Downing Street Declaration. The accord, issued December 15, 1993, declared that Britain had no economic or strategic interest in Northern Ireland and that it would allow Sinn Fein, in exchange for an IRA cease-fire, to come to the bargaining table and would begin the withdrawal of British troops from Ulster. Furthermore, the people of Northern Ireland would be given the opportunity to vote on whether they wanted to remain part of the United Kingdom.

The Downing Street Declaration led to the hastily organized announcement by the National Committee on American Foreign Policy of a conference on Northern Ireland, and representatives from all sides from the strife-torn region were invited to present their views in New York on February 1, 1994. Adams got an invitation, which gave him another chance to apply for a visa. According to a number of sources, Edward Kennedy and his ambassador sister hatched a plan to finally get Adams into the United States on New Year's Day at her official residence in Dublin.

The British government, meanwhile, had made it clear that it did not want Clinton to grant Adams a visa because Sinn Fein had not renounced the use of violence and the IRA had not formally declared a cease-fire. However, under considerable pressure from 40 members of Congress, led by Senators Kennedy and

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Daniel Moynihan (D-N.Y.) and supported by Ambassador Smith, Clinton snubbed Britain, overruled the State Department and the U.S. embassy in London, and granted Adams a limited visa to attend the New York conference. In doing so he fulfilled his campaign pledge, but he also infuriated the unionists in Northern Ireland and, more important, the British, who angrily decried the death of the "special relationship" between America and England.

Only days before, State Department officials had said they would grant Adams a visa only if Sinn Fein renounced violence. The White House, however, hoped that the visa would clear the way for just such a declaration. To make matters worse, the quid pro quo for the visa was not delivered. During his visit to America, Adams said nothing new on the search for an end to the violence. Furthermore, within weeks the violence escalated, and the IRA closed London's main airports with bomb threats and mortar attacks. Not until a delegation of private citizens from the United States visited the Irish government in Dublin and Adams in Belfast were all the pieces in place. On August 31, 1994, Adams announced that the IRA had issued a unilateral, unconditional cease-fire. The IRA council had voted 5-4 for the cease-fire, according to the minutes of the meeting, mainly because of the power of the Irish-American lobby, which was viewed as "not in hock to any particular party in Ireland or Britain" and because "Clinton is perhaps the first U.S. president in decades to be substantially influenced by such a lobby."

Clinton went from being a reluctant participant to an active player when he decided, soon thereafter, to grant Adams a new visa and lift the ban on official U.S. contacts with Sinn Fein. And his involvement did not end there. Before the end of the year, he granted Adams another visa, this time for three months and multiple visits; let Adams meet with senior White House officials; appointed then-Senator George Mitchell (D-Maine) as his personal representative on Northern Ireland, charged with organizing an upcoming conference on investing there; and increased by $10 million the U.S. contribution to the International Fund for Ireland.

These decisions had no impact on the major stumbling block in the peace process: whether the IRA would have to disarm before any major political changes were made or the IRA and British forces would "demilitarize," in Adams' words, in tandem. But they may have helped exert pressure on the Irish and the British to produce the February 1995 elaboration of the Downing Street Declaration.

Before the strengthened declaration broke the impasse between the British and the IRA, Clinton took steps that again infuriated London. In March 1995, after another round of enormous pressure from the British not to grant Adams anything new and from the Irish-American community to do just that, Clinton not only issued Adams another visa but permitted him to open an office in Washington, raise funds in the United States, and attend a White House reception on Saint Patrick's Day in honor of the new Irish prime minister, John Bruton.

The rift between British Prime Minister John Major and Clinton, by then a large one, was somewhat eased over the next several months. Last June, Clinton an-

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nounced that he would visit both Belfast and Dublin in the fall and that he wanted the peace negotiations fully under way at that time. However, all-party talks were delayed through the summer by the dispute over the decommissioning of IRA arms. In August the IRA announced that it would not give up its weapons, further setting back the Irish and British governments' joint effort to get the discussions started. Not until the eve of Clinton's visit to London were Major and Bruton able to announce a new two-track agreement, which included a plan to create an international commission, headed by Senator Mitchell, that would discuss the arms issue and reopen preliminary all-party talks at the same time. Unfortunately, when Mitchell issued his report in late January 1996, Major decided to effectively ignore it and called for an election to get all-party talks started. The IRA, in turn, announced the end of the cease-fire with a bomb blast in London on February 9.

A SPECIAL RELATIONSHIP?

Whatever the outcome of Clinton's efforts to bring peace to Northern Ireland (in his words) or to gain the votes of Irish-Americans in 1996 (the British view), he made them for the same reasons that gave the Irish such influence over Andrew Johnson. Johnson needed votes in critical New York City congressional races. Clinton needed votes in New York's presidential primary and, in the general campaign, Irish-American votes in New England (without which he would have lost the election) and, especially, in New York and California. Whether or not that ploy actually delivered those states remains unclear. But when he became president, Clinton did run into opposition to his Irish initiative in both London, where it was expected, and in Dublin, where it was not. He had to quickly back away from his promises of a special envoy and a visa for Adams until the Downing Street Declaration helped open new opportunities.

Clinton's vulnerability to Irish-American political pressure increased as he suffered through a series of foreign and domestic policy setbacks, notably on health care reform. He needed the help of such Irish-American congressional leaders as Kennedy and Moynihan, and he had to give them what they wanted. But doing so would enrage the British. One White House official acknowledged when Adams' first visa was granted, "It obviously ticks off the Brits, but equally obvious, that is acceptable to a lot of us."

That attitude toward the British also figured in the decisions of Clinton officials as they formulated an Irish policy. The special Anglo-American relationship, increasingly important from the late nineteenth century on, waned in significance with the passing of the Cold War. By 1993 Clinton's advisers saw no reason why the British should receive special treatment. America's interests no longer coincided with Britain's interests, as the unfolding of the Bosnia crisis in the spring of 1992 showed. Thus Clinton's need to reach for the Irish-American vote in both 1992 and 1994 could be satisfied without any fear of causing damage to an American national interest.

Nor would anything Clinton did for the Irish-American lobby cost him votes; most Americans do not understand, nor do they care about, the troubles in Ireland. In fact, with his domestic program in shambles, by the summer of 1994 the president could hope to gain votes

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among the general population by bringing peace to Ireland. That hope only grew in the aftermath of the Republican victory in the November 1994 elections.

Whatever happens in the upcoming race, it is now clear that the Clinton years have changed the special relationship with Great Britain. What began in the 1880s and grew in the twentieth century is no longer necessary. The new migration of the Irish from the mid-1970s to the present—generated by Ireland's economic travails and special visa programs directed toward the Irish—has reinvigorated the Irish lobby, which will continue to influence national and state elections. From 1987 to 1994, some 71,000 Irish citizens received visas. Of the 50,000 Irish immigrants now living in Boston, 20,000 are illegal. As of the 1990 census, 79,000 first-generation Irish lived in Massachusetts, and 1.6 million residents claimed some Irish ancestry. The statistical portrait is similar for California, other New England states, and New York.

Irish-Americans live in politically significant areas, and politicians will see them as a potential swing vote as long as they appear to vote as a bloc. Maintaining that cohesion will require continued leadership on the part of Irish-American politicians and, more important, an agenda that is driven by events in Northern Ireland and capable of molding and solidifying that voting bloc. Ironically, if the Clinton effort brings a final settlement of the centuries-old Irish Question, Irish-Americans will have no reason to forge an agenda that will hold their reinvigorated pressure group together. Unfortunately, the IRA's most recent decisions and actions do not indicate that the troubles of Northern Ireland will end soon.

ROBERT SKIDELSKY
Author of
JOHN MAYNARD KEYNES

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The Case for Mexico's Rescue

The Peso Package Looks Even Better Now

Bradford De Long, Christopher De Long, & Sherman Robinson

One often hears claims that U.S. policy toward Mexico has failed. In *Harper's*, the argument is that the North American Free Trade Agreement (NAFTA) shows the Clinton administration has little concern with "the continuing hemorrhage of American jobs abroad." *The New York Times* deplores "the rapid unraveling of the Mexican economic achievements of 1988-1993." Publications across the United States assert that freer trade has increased narcotics trafficking through Mexico. Pundits of the far left and the far right appear regularly on television talk shows asserting that the peso crisis is proof the U.S. policy of economic engagement did not work. They say that Presidents Bush and Clinton were wrong to back NAFTA and to support the privatization of Mexico's state-owned industries, its neoliberal market and investment-friendly development strategies, and the rescue package to contain the winter 1994-95 devaluation and collapse of the peso.

These critics are mistaken about the impact and implications of U.S. policy. NAFTA has not generated and will never generate immediate, large-scale, tangible economic effects—positive or negative. Nor was it ever capable of doing so, as most economists understood. The trade agreement, however, did reaffirm America's commitment to Mexico's economic development, which was to be sorely tested when the peso crashed a year after Congress ratified NAFTA. The U.S.-led rescue, which was hastily put together to counter the peso crisis and which is now creating immediate eco-

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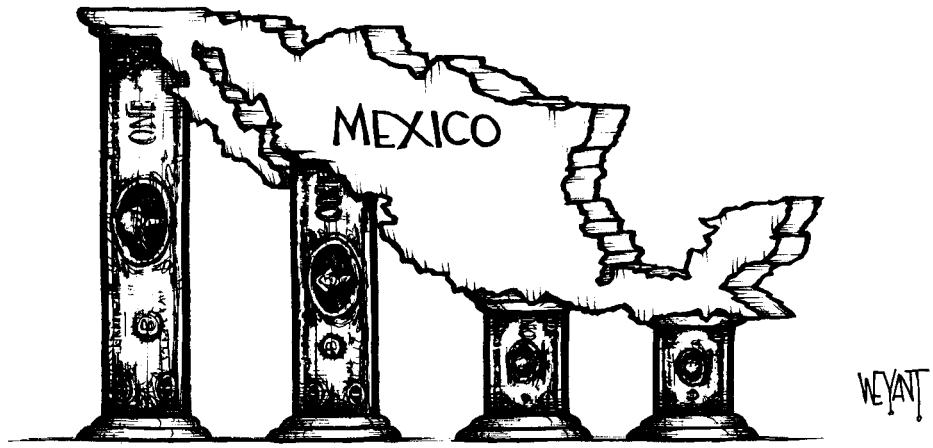

nomic benefits on both sides of the border, is a sound policy with far-reaching effects for Mexico.

Although Mexico's economic development is not assured of success over the next generation, the country has probably turned the corner on its recent crisis. Some forecasters expect its GDP to grow by three percent this year. The unemployment rate peaked in July 1995 and has since declined by more than two percentage points. Exports and imports have adjusted to offset the shutdown of foreign investment the peso crisis triggered; the current account rose to a surplus of $7.4 billion in 1995, from a deficit of $18.5 billion in 1994. Over the same period, exports rose 30 percent and imports fell 10 percent.

WHAT NAFTA MEANT

The trade agreement did not greatly expand Mexico's access to the U.S. market; the market was already largely open to Mexican imports. Rather, NAFTA made Mexican businesses and investors a solemn promise that they would not be bankrupted by a sudden wave of U.S. protectionism.

A more important benefit of NAFTA for Mexico lay in the obligations it placed on future Mexican administrations to continue market-friendly reforms. With the reforms tied to a formal treaty, the chance they would be abandoned was diminished. In developing countries, most of the benefits from market reforms hinge on their perceived and actual permanence. For governments struggling to establish their legitimacy and sustain growth, the worst of all worlds is to enact policies that hurt powerful interests, then fail to reap the benefits because investors and producers fear the policies will be transitory. NAFTA helped avoid this trap.

Critics of NAFTA, such as Texas billionaire and erstwhile presidential candidate Ross Perot, alleged the treaty would endanger some five million American jobs. But U.S. joblessness has declined since NAFTA's implementation. The level of employment in the United States these days is much more the result of Federal Reserve decisions than changes in trade with Mexico. As part of the Clinton administration's NAFTA legislation, the Labor Department set aside money to help displaced workers with retraining and job searches. Through last year, about 35 companies a month had applied for the set-aside funds, and about 2,000 workers

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a month had received financial aid. These are tiny numbers in the context of the two million workers in the United States who lose their jobs in any one month. Thus NAFTA in 1995 caused perhaps one out of every thousand job losses, an order of magnitude less than the statistical errors in the monthly employment reports.

As for the net gains from NAFTA, virtually all economists agreed with estimates from the Congressional Budget Office that there would be small gains in U.S. GDP and some shifting of workers from relatively low-wage, labor-intensive industries to high-wage, capital-intensive industries. About 0.03 percent of the labor force would shift jobs over the next decade, due to NAFTA. Serious analysts never expected large gains for the United States. In economic terms, Mexico is about the size of Los Angeles.

The benefits for Mexico are relatively much larger. Mexico's growth since 1986 has been based on policy liberalization and trade expansion, which have significantly changed the structure of production and led to dramatic increases in trade with the United States. NAFTA locks in these policy changes, and numerous studies indicate that successful growth and structural change in Mexico increase job creation and reduce pressure for migration to the United States.

During the 1994-95 peso crisis, the benefits for Mexico became more important, not less. Had it been foreseen during the NAFTA negotiations that foreign capital would flee Mexico at the end of 1994, the case for NAFTA would have been stronger, not weaker. As a consequence of the crisis, guaranteed access to the U.S. market has become a more important determinant of long-term investment in Mexico, and Mexico's demonstrated commitment to reform policies has become more important for renewed growth.

The peso crisis has raised the stakes for the United States as well. That Mexico is not going to have as easy a time becoming a prosperous industrial democracy as many had hoped four or five years ago makes U.S. support for a policy of economic engagement and steady economic reform all the more important.

THE FALL

In the spring of 1994, Mexico seemed to be doing many things right. Since the mid-1980s it had undertaken major reforms. The government budget had shifted from a substantial deficit to a surplus, thus no longer draining Mexicans' savings pool. State enterprises were being privatized and tariffs lowered. Since 1989 the government deficit had fallen from five percent of GDP to zero, and the inflow of capital had risen from zero to five percent of GDP.

Some leading economists (e.g., Rudiger Dornbusch, Alejandro Werner, Guillermo Calvo, Leonardo Leiderman, and Carmen Reinhart) forecast trouble, however. Inflation and the relatively fixed peso-dollar exchange rate had left Mexico uncompetitive. While foreign investors still viewed Mexico favorably, Mexicans realized that at current exchange rates new foreign direct investment in Mexico was likely to be unprofitable. Mexicans had been taking foreign investors' money, but they were using it to finance increased consumption rather than increased investment. The solution was to devalue the peso by 20 percent and then, to keep Mexico from losing competitiveness again, maintain the real exchange rate by

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bringing the peso's rate of inflation down to the U.S. inflation rate—a standard prescription of the International Monetary Fund (IMF)and the World Bank.

Throughout the spring and summer of 1994, the administration of Carlos Salinas was preoccupied with the Mexican presidential campaign. Although foreign exchange reserves were falling, the government bet that the drawdown was not a permanent change in foreign investors' demand for Mexican assets. Part of the government's strategy for maintaining confidence in the stability of its exchange rate was to replace conventional short-term borrowing with Tesebonos, short-term securities whose principal was indexed to the dollar, encouraging investors who feared devaluation to keep their capital in the country. In retrospect, this was a double-or-nothing bet. The policy was effective in the short term, but risky: it retained some $23 billion of foreign financing, but ensured that if a devaluation came, it would be deeper and more dangerous.

By the end of 1994, it had become public knowledge that the flow of foreign portfolio capital into Mexico had not resumed. From nearly $30 billion before the assassination of presidential candidate Luis Donaldo Colosio in March 1994, foreign exchange reserves had fallen to perhaps $5 billion. After a tumultuous year that included political assassinations, a tainted presidential election, and a guerrilla uprising in the state of Chiapas, Mexico had nearly reached the bottom of its reserves. Just weeks into his term, the new Mexican president, Ernesto Zedillo Ponce de Léon, announced a devaluation of the peso.

The market reaction was more severe than anticipated. The peso fell 50 percent, far more than the 20 percent economists deemed necessary to restore equilibrium. Each investor in Mexico feared that other investors would pull their money out no matter what the cost, and that the last investors to withdraw would lose the most—through hyperinflation, as the Mexican government frantically printed pesos to cover its peso-denominated debts; through capital controls, which would trap money in Mexico indefinitely and eat up its value; or through formal default, a repeat of Mexico's commercial bank crisis of 1982.

With $5 billion in reserves, $23 billion in Tesebono liabilities, which would be converted into dollars and pulled from Mexico as they matured, and no one willing to lend hard currency, Mexico faced two painful alternatives. The government could push interest rates sky-high to keep capital in the country, in which case the extraordinary cost of money would strangle investment and employment and quickly bring on a Great Depression. Or it could lose its ability to borrow and start rapidly printing money to meet its obligations, resulting in a spiral of hyperinflation and depreciation, in which case a deep depression would come slowly as hyperinflation eviscerated a productive economy and tore Mexico from the world trade network. To make things worse, the panic began to spread—the so-called tequila effect—raising the possibility that developing countries throughout the world would be forced into strongly contractionary policies leading to deep recessions.

A MEASURE OF SUCCESS

Mexico's predicament was not preordained. At the end of 1994, Mexico's economy was not insolvent, but merely illiquid. If in-

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vestors had been willing to roll over the country's short-term debt, a combination of contractionary policies and a moderate devaluation to reduce imports and encourage exports would have helped pay the government's foreign liabilities as they came due. Such an approach might have caused a recession (although in Britain in late 1992 it did not), but it would have been much shorter and shallower than the one Mexico faced in the absence of funds to roll over its short-term debt. Lack of liquidity was the problem, and liquidity is what the support package provided: some $40 billion in dollar-denominated assets from the United States, the International Monetary Fund, and other donors, put aside for Mexico to draw on.

The peso support package worked: Mexico registered a $7.4 billion trade surplus in 1995. Real exports were more than 30 percent higher in 1995 than in 1994, while imports fell more than 8 percent. The generation of such an export surplus so quickly resulted from the involuntarily large devaluation of the peso and the squeeze the crisis put on the Mexican economy.

Mexico can now export enough to earn the foreign exchange to repay its debts. Indeed, governments and international institutions that contributed to the support package are making money—as is generally the case in a genuine liquidity crisis. So far, $750 million in interest payments has flowed into the U.S. Treasury. The Congressional Budget Office forecasts that the support package will reduce, not increase, the U.S. budget deficit. Moreover, Mexico's foreign exchange reserves at the end of January were a healthy $16 billion.

The rescue has not been pain-free. Mexico's moves during the peso crisis to allay foreign investors' skittishness about lending or refinancing have exacted a high cost: the country's GDP in 1995 was seven percent below 1994 levels. However, Mexico's unemployment rates have improved since August, and other data suggest that the worst is over. The severe recession Mexico experienced is much better than the Great Depression the country might have suffered in the absence of the liquidity support package.

Without an international rescue, a major depression in Mexico seemed almost inevitable, and it would almost surely have led to regional slowdowns in California and Texas and a jump in illegal immigration into the United States. There was a chance—how large, no one knew or was willing to estimate—that the crisis would spread to other developing countries. A sudden end to the $150 billion annual flow of private investment from the industrial core of the world economy to the developing nations would likely have caused severe depressions in Latin America and perhaps in Asia.

FAIR ENOUGH

Initially U.S. congressional barons embraced the rescue. But despite almost daily pilgrimages to Capitol Hill by Treasury Secretary Robert Rubin and Federal Reserve Chairman Alan Greenspan, legislative support unraveled. A Clinton economic initiative that promised to stem an international liquidity crisis, avoid a Great Depression in America's neighbor to the south and a large increase in illegal immigration, avert a potential recession in developing countries throughout the world, avoid regional slowdowns in Texas and California, and probably make money for the U.S. Treasury turned out to be impossible to

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push through Congress in early 1995. The Clinton administration shifted to the joint executive branch-IMF rescue package, which used the Treasury Department's Stabilization Fund to provide liquidity to Mexico.

What seemed to excite rage was that the U.S. government wanted to do something to support Mexico and—even worse—investors in Mexico. Xenophobia confused the debate, but the animus behind the current applause lines of the American left and right appears to be the perception that the U.S. government gave a $50 billion bailout to Secretary Rubin's Wall Street friends.

The current Mexican recession does impose an unfair burden of adjustment, even if it is only a shadow of the potential macroeconomic disaster. From 1994 to 1995, real Mexican GDP fell, and the unemployment rate in late 1995 was some three to six percentage points above its mark the previous year. Yet investors in Tesebonos—investors who knew the risks—came out of the crisis whole.

The support package, however, did not make investors richer at others' expense. Stemming financial crises is a positive-sum game: everyone wins. Workers keep their jobs, and small businesses avoid bankruptcy. These benefits are real, and they add more to the sum of human welfare than the appreciation of a few financial assets on Wall Street. To abandon these benefits to make Wall Street investors suffer would be cutting off one's nose to spite one's face.

A rapid and efficient way to impose the burden of the crisis more fairly, without the legal and economic mess of formal default and without increasing the risk of a wider liquidity crisis, would have been nice. Some political analysts say they would have welcomed a formal default by Mexico, in which case creditors would have had to negotiate with the Mexican government for repayment and bear some of the cost. Default negotiations, however, never end quickly, cast a long shadow over a nation's economy, keeping foreign investment out for up to a decade, and vastly increase the magnitude of the near-term economic losses and depression. Moreover, the default of one developing nation invariably causes investors to perceive more risk in others, causing problems throughout the world. Even with hindsight, however, there was no clear path to a better solution. Alternatives that spread the costs more widely would have amplified them as well.

Part of the problem is that there is no consensus about what constitutes a good economic system. There used to be wide agreement in the United States that the best balance is a "mixed economy," in which government provides key investments and services, a safety net, and social insurance, while most of the risks and rewards from enterprise are left to entrepreneurs and investors. Yet post–Cold War Republican rhetoric repudiates this consensus and seeks a retreat to an earlier, less satisfactory form of capitalism, while Democrats fail to defend the mixed economy or put forward a reasoned alternative. The result is a muddle, as in the debate over NAFTA, the Mexican rescue package, and recent U.S. budgets.

Any assessment of what the political firestorm over the peso support package means for future management of the world economy is depressing. Faced with a classic liquidity crisis in which international support would produce huge eco-

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nomic benefits at very little risk, Congress could not step up to the plate. The only positive note is that Congress was equally unwilling to block the rescue package.

Perhaps worse, some of the larger financial powers sounded like the skeptics in Congress, grousing that the Mexican crisis was not a "systemic problem" and that the rescue package helped those who had made imprudent short-term investments in Mexico. Germany and Britain abstained from the IMF executive board vote that authorized the organization's contribution to the support package. Ultimately the IMF did step up to the plate, approved the program, and has announced its willingness to do likewise again. It may have to. The role of the IMF becomes more crucial when the major economic powers are unable to react quickly to dampen liquidity crises.

INCREASING THE ODDS

The long-term benefits from the economic policies instituted in the 1980s by Mexican president Carlos Salinas remain. Mexico's tariffs and nontariff barriers have been slashed. Restrictions on foreign investment have been lifted. Perhaps 1,000 state-owned enterprises have been privatized. A central government budget deficit of 13 percent of GDP in 1987 has been transformed into a balanced budget, and inflation is down to 27 percent, from 150 percent in 1987.

Relying on foreign capital inflows to finance industrialization, however, is risky. It can lead not only to rapid growth but to deep recessions, as the United States discovered in the 1800s, when it relied heavily on British financing for its industrial and infrastructure development and was subjected periodically to devastating financial crises. In addition, the Mexican banking sector remains under considerable strain, inflation is a persistent problem, and unemployment and underemployment remain very high.

The Mexican political system may collapse under the weight of economic and political liberalization and the extra burden created by the peso crisis. Noting the assassinations of Cardinal Posadas, Luis Donaldo Colosio, and José Francisco Ruiz Massieu, commentator Jorge Castañeda has concluded that nonviolent dispute resolution mechanisms among Mexican elites are in "a terminal state of dysfunction." Should the Mexican political system collapse, what follows may not be better, economically or politically.

More likely, Mexican politics will muddle along toward greater democracy. And whatever Mexico's destiny, it is surely better off because of the economic engagement the past two U.S. administrations pursued. NAFTA has increased the odds that successive Mexican governments will continue to dismantle the structures of government control and political influence that have been a drag on Mexico's growth. More important, NAFTA has increased the odds that foreign investors will believe Mexico is committed to pro-growth policies. It has boosted Mexico's ability to draw on the world's savings to finance further investments directed toward long-term productivity growth.

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Workers and the World Economy

Ethan B. Kapstein

BREAKING THE POSTWAR BARGAIN

THE GLOBAL economy is leaving millions of disaffected workers in its train. Inequality, unemployment, and endemic poverty have become its handmaidens. Rapid technological change and heightening international competition are fraying the job markets of the major industrialized countries. At the same time systemic pressures are curtailing every government's ability to respond with new spending. Just when working people most need the nation-state as a buffer from the world economy, it is abandoning them.

This is not how things were supposed to work. The failure of today's advanced global capitalism to keep spreading the wealth poses a challenge not just to policymakers but to modern economic "science" as well. For generations, students were taught that increasing trade and investment, coupled with technological change, would drive national productivity and create wealth. Yet over the past decade, despite a continuing boom in international trade and finance, productivity has faltered, and inequality in the United States and unemployment in Europe have worsened.

President Bill Clinton may have been right to proclaim that "the era of big government is over," and perhaps the American people will ultimately decide that those who need assistance should look elsewhere for help. But if the post–World War II social contract with workers—of full

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employment and comprehensive social welfare—is to be broken, political support for the burgeoning global economy could easily collapse. For international economic integration is not some uncontrollable fact of life, but has deepened because of a series of policy decisions taken by the major industrial powers over the last 45 years. It is time to recognize that those decisions, while benefiting the world economy as a whole, have begun to have widespread negative consequences. The forces acting on today's workers inhere in the structure of today's global economy, with its open and increasingly fierce competition on the one hand and fiscally conservative units—states—on the other. Countermeasures, therefore, must also be deep, sustained, and widespread. Easing pressures on the "losers" of the new open economy must now be the focus of economic policy if the process of globalization is to be sustained.

It is hardly sensationalist to claim that in the absence of broad-based policies and programs designed to help working people, the political debate in the United States and many other countries will soon turn sour. Populists and demagogues of various stripes will find "solutions" to contemporary economic problems in protectionism and xenophobia. Indeed, in every industrialized nation, such figures are on the campaign trail. Growing income inequality, job insecurity, and unemployment are widely seen as the flip side of globalization. That perception must be changed if Western leaders wish to maintain the international system their predecessors created. After all, the fate of the global economy ultimately rests on domestic politics in its constituent states.

The spread of the dogma of restrictive fiscal policy is undermining the bargain struck with workers in every industrial country. States are basically telling their workers that they can no longer afford the postwar deal and must minimize their obligations. The current obsession with balanced budgets in the United States and the Maastricht criteria in Europe must be replaced by an equally vigilant focus on growth and equity. National responses to this global problem are likely to fail, as any state that deviates from "responsible" economic policies will be punished by currency markets and bondholders. States must now reorient their economic policies toward growth, but it should be done as part of a coordinated international effort. Calling for such economic policy coordination might seem utopian in the current political environment, but it has been done before.

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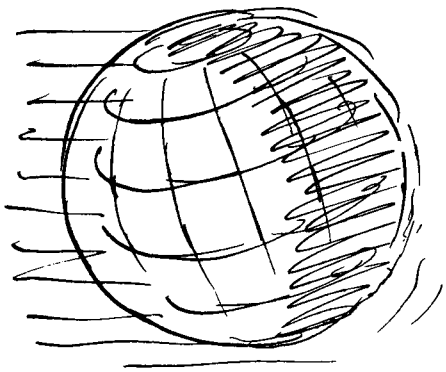

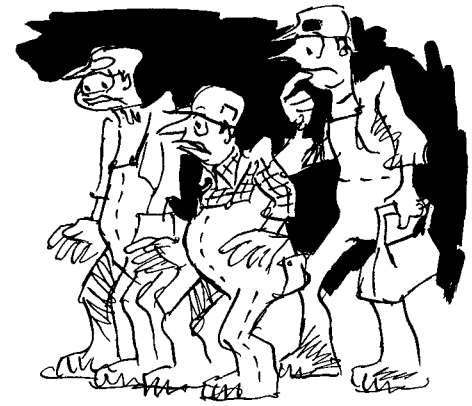

The world may be moving inexorably toward one of those tragic moments that will lead future historians to ask, why was nothing done in time? Were the economic and policy elites unaware of the profound disruption that economic and technological change were causing working men and women? What prevented them from taking the steps necessary to prevent a global social crisis?

THE GREAT TRANSFORMATION

THE CURRENT predicament is hardly unprecedented. Writing in *Progress and Poverty* in 1879, the reformer Henry George observed that "at the beginning of this marvelous era it was natural to expect, and it was expected, that laborsaving inventions would lighten the toil and improve the condition of the laborer; that the enormous increase in the power of producing wealth would make real poverty a thing of the past." George chronicled the many technologies, such as the steam engine and telegraph, that had been introduced in his lifetime, and the great explosion in commerce and trade that followed.

But far from heralding an era of prosperity, "disappointment has followed disappointment. From all parts of the civilized world come complaints of industrial depression . . . of want and suffering and anxiety among the working classes." George observed that the massive investment in technology had only resulted in increasing returns to capital and falling wages for working people. Thus "the mere laborer has no more interest in the general advance of productive power than the Cuban slave has . . . in the price of sugar."

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During the nineteenth century, the world enjoyed a secular increase in trade and investment under the aegis of a liberal Great Britain, while the adoption of the international gold standard created the illusion of domestic financial stability. But profound social dislocation accompanied this process of globalization and would eventually contribute to its undoing.

Britain's decision in 1846 to lift the Corn Laws, which had long protected domestic agriculture, is the classic example of a policy consciously designed to globalize the economy in favor of specific interests. With industrialization, the Manchester factory owners needed more labor. The simple solution was to get farm hands off the land and pay them low wages. The most efficient way to achieve this goal was to introduce foreign competition in agricultural products, forcing down prices and ensuring that farmers and tenants could no longer earn their livelihood. Labor flooded into the cities, and these workers were paid relatively low wages because the price of food—their major expenditure—was falling.

Throughout the Industrial Revolution various regulations that had long governed economic life—many dating back to the Middle Ages—were dismantled, and rural laborers found their traditional ways of life torn asunder. Workers became commodities like grain and coal, with demand for and supply of their services a function of market requirements. Such a laissez-faire approach to labor markets was inherently unstable, as the philosopher Karl Polanyi later explained in *The Great Transformation.* He described the process by which landless working people throughout Europe entered a world of urban poverty, creating a political cauldron. During periods of prolonged depression these laborers became easy prey for extremist political forces. Polanyi argued that it was the complete unraveling of economic and labor market regulations and traditions in the nineteenth

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century that caused such tremendous social and political upheaval in the early twentieth, culminating in the collapse of the world economy and the outbreak of the First and Second World Wars.

The Great Transformation was published in 1944, the year that the Bretton Woods conference to restructure the international economy was held. And it was Polanyi's version of history that the postwar policymakers brought with them. As Treasury Secretary Henry Morgenthau said, "All of us have seen the great economic tragedy of our time. We saw the worldwide depression of the 1930s. We saw currency disorders develop and spread from land to land, destroying the basis for international trade and international investment and even international faith. In their wake, we saw unemployment and wretchedness. . . . We saw their victims fall prey . . . to demagogues and dictators. We saw bewilderment and bitterness become the breeders of fascism, and finally, of war." The post–World War II global economy resulted from a series of conscious policy decisions, reached in the belief that increased economic exchange could be a force for world peace and prosperity.

The postwar leaders were committed to rebuilding the world economy, but this time with a significant difference. In globalization's previous incarnation, governments had done little to protect working people from its malign effects, and their mistake exacted a price in revolutions and war. Having learned from that experience, statesmen now designed a liberal world economy that maintained an active domestic role for the state in order to ensure that equity and growth went hand in hand.

Thus the new global economy would include both domestic and international components. Of greatest significance, the state would supervise most aspects of economic life. In the United States, for example, the Truman administration passed the Employment Act, which set as its objective full employment, and the G.I. Bill, which provided veterans with education and housing benefits. Across Europe, ambitious social welfare policies were enacted. In every industrial country, labor was not to be treated as a commodity, subject to the free market's destructive whims, and the organization of workers into labor unions was actively encouraged. The implicit agreement struck between states and their societies—what John G. Ruggie has termed the bargain of "embedded liberalism"—ensured that the

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gains from economic globalization would be used to compensate the losers in the interests of political stability.[1]

Western leaders constructed international regimes for money and trade that by charter were to be responsive to domestic political and economic concerns. When they launched the General Agreement on Tariffs and Trade (GATT) to liberalize and expand commerce among the member states, they also established safeguards to protect workers from unfair trade practices and to assist those who were displaced. When they created an international monetary system to avoid ceaseless rounds of competitive currency devaluation, they also established the International Monetary Fund (IMF) as a lender of last resort for balance-of-payments emergencies. When they formed a European Common Market to promote regional trade and investment, they also permitted states to retain considerable autonomy in social policy.

But the Bretton Woods order would prove unsustainable. It was very generous to workers and capitalists, but it required high levels of economic growth. The oil crises of 1973-74 and 1978-79 hammered the industrial countries, prompting stagflation, that insidious mixture of stagnation and inflation. Furthermore, increasing foreign trade meant greater competition for national firms, while financial deregulation permitted capital to become more footloose. These developments, in turn, led to widespread corporate restructuring and a glut of unskilled labor, which translated into higher unemployment, less tax revenue, and greater pressure on state resources. The crisis of the welfare state had begun.

Faced with the exploding costs of cradle-to-grave support for increasingly idle populations, Western states in the 1980s began to adopt stringent monetary and fiscal policies. Workers, of course, have had little say in this process. Indeed, what governments are really trying to do is break their postwar deal with workers while maintaining their commitment to an open economy. They cannot have it both ways, and instead the policy focus should be on negotiating a package that helps workers adjust to ongoing economic changes.

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[1]John G. Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization,* Spring 1982, pp. 195-231.

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WORKERS OF THE WORLD

NOBODY DISPUTES that the past two decades have been cruel to unskilled workers in the industrial countries. Growing income inequality has given rise to millions of working poor in the United States, and this sorry condition is now becoming apparent in Western Europe. Between 1973 and 1993 the real hourly wage of Americans without a high school diploma fell from $11.85 an hour to $8.64 an hour. In the early 1970s households in the top 5 percent of the income bracket earned 10 times more than those in the bottom 5 percent; today they make almost 15 times more. Similar trends are evident in Britain and even that most egalitarian country, Sweden.

Workers have been further squeezed by the decline in manufacturing employment. Manufacturing employment in the United States fell by 1.4 million between 1978 and 1990. Those who lost their jobs were, in general, the unskilled, and when they found new work it was usually at lower pay. The experience has now become familiar to middle managers as well, as evidenced by the recent spate of major corporate layoffs. The failure of the industrial sector to generate new jobs has been a major cause of labor's economic problems, and perhaps some of America's social problems more generally. Fully two percent of all working-age American men are behind bars.

In Western Europe, the unemployment figures are frightening. In France, average unemployment between 1969 and 1973 was 2.6 percent; today it is over 11 percent. In Germany the rate was below 1 percent; today it is approaching 10 percent. In Belgium, the unemployment rate has quadrupled over the past 20 years. The Europeans have created a lost generation of workers and are now suffering for it in terms of increased crime, drug abuse, violence against immigrants, and the increasing popularity of extremist political groups. In this context, it is sobering to realize that Germany's current level of four million unemployed is the highest it has been since the early 1930s.

At the same time, there has been a dramatic decline in unionized labor in both the United States and Europe. The unionized portion of the U.S. labor force has dropped by more than one-third—from 25 to 16 percent—since the 1970s, and organized labor is also declining in Austria, France, Germany, Italy, the Netherlands, Switzerland,

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and the United Kingdom.[2] Labor is losing its political voice, and the consequences of its demise—lower wages and benefits for unskilled workers, greater job insecurity, and less political interest in the economic losers—should not be dismissed.

Further, it should be recalled that organized labor in the north has been a prime mover behind unionization and the promotion of human rights in the developing countries of the south. International activism by unions has been a help to workers in Latin America and other countries struggling to win the right to collective bargaining, as well as better health and safety standards. Now that all industrial workers—unionized or not—could benefit from this type of activism in such countries as China and India, and other non- or anti-union regions of the world, organized labor is no longer vigorous enough to play this role. To be sure, unions are hardly perfect; they too form entrenched interests that hinder labor market flexibility and job creation. But their historical role in economic development and social equity has been forgotten.

THE BATTLE OF THE CAUSES

SOLUTIONS TO these bleak trends need not await some consensus among economists about their causes. Policymakers debating these issues are like firefighters idly wondering what started the blaze while the house burns to the ground. The two traditional culprits that have once again emerged from the economics literature are trade and technology. A third, cited by few economists but by some journalists and politicians, is immigration.

Economists who focus on the effects of trade, such as Adrian Wood, have argued that the contemporary problems of unskilled workers in the north are linked to a strong increase in trade between north and south and a change in its composition.[3] Historically, the developing countries provided the industrial world with agricultural goods and raw materials in exchange for manufactured goods. The

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[2]Melvin Reder and Lloyd Ulman, "Unionism and Unification," in *Labor and an Integrated Europe,* ed. Lloyd Ulman, Barry Eichengreen, and William T. Dickens, Washington: The Brookings Institution, 1993, p. 24.

[3]Adrian Wood, *North-South Trade, Employment and Inequality: Changing Futures in a Skill-driven World,* New York: Oxford University Press, 1994.

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gains from such trade have been analyzed and extolled by economists since David Ricardo, sustaining the free trade movement.

Such trade is rightly celebrated, since it makes nations wealthier than they would otherwise be. More recently, however, the south has moved into the business of manufacturing, from clothing to consumer electronics. Today such goods account for over 50 percent of the south's exports and surpass its commodity exports in value. As is well known, workers in these developing countries are generally paid peanuts for their labor—less than a dollar an hour in such countries as China, India, and Pakistan—and in many countries, including China, they are prevented by law from forming unions or otherwise bargaining collectively.

According to a theory proposed by Paul A. Samuelson and Wolfgang Stolper in 1941, two countries that practice free trade and have the same technology should eventually see their wages equalize. In effect, wages in the First World are forced down by competition from developing countries in similar industries. Ironically, even though falling wages would seem to confirm Stolper-Samuelson, some economists are now claiming that its assumptions are wrong.[4]

In Western Europe wages are less skewed than in the United States, but the continent has paid for relative equality with higher unemployment. Economic theory also helps to explain why this is so. If Germany begins importing Polish goods produced with unskilled labor, and regulations and other rigidities prevent wages from falling to Polish levels, unemployment among unskilled German workers will rise in the absence of new job creation.

Many American economists, such as Paul Krugman and Robert Z. Lawrence, contest these explanations. They point out that foreign trade remains too small a share of economic activity in most industrial nations to be responsible for such large and pervasive phenomena as unemployment and income inequality, and they assert that technology must be responsible for these changes. According to this school of thought, the introduction of new technology—say, computers—creates a surplus of unskilled labor. At the same time, the new technology

[4]See, for instance, Jagdish Bhagwati and Vivek H. Dehejia, "Freer Trade and Wages of the Unskilled—Is Marx Striking Again?" in *Trade and Wages: Leveling Wages Down?* ed. Jagdish Bhagwati and Marvin H. Kosters, Washington: AEI Press, 1994, pp. 36-75.

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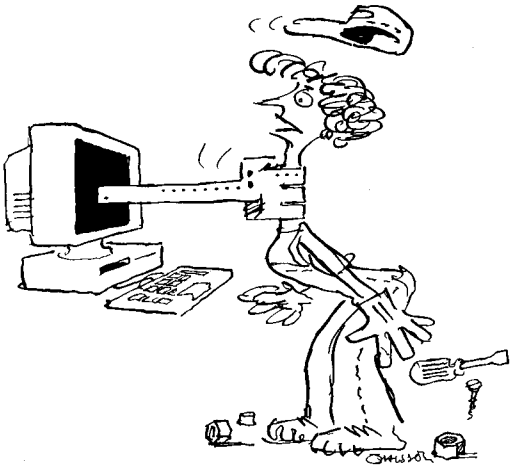

increases the demand for the skilled workers who know how to run it, raising their wages. As a result, income inequality widens because of the good old-fashioned law of supply and demand. The evidence for this line of reasoning is the heavy investment in new technology by manufacturing during the 1980s, when growing wage inequality became apparent in the United States.

But economists are wrong to treat trade and technology as competing explanations. A significant share of new technology, for example, has been induced by foreign competition. Indeed, when one looks at those industries that have suffered great job losses on the one hand and enjoyed significant investment in new technology on the other, they are concentrated in sectors, like steel and automobiles, that have faced tremendous pressure from imports. Still, the widespread introduction of technology across many sectors suggests that domestic competition spurred much of this investment.

As a general explanation, technology is unsatisfactory. It is never clearly distinguished from other kinds of capital, and there is no reason that its introduction must in principle reduce the wages of the unskilled. Technology is for economists the residual that accounts for everything their theories cannot.

Yet a final explanation for labor's lament is immigration. During the 1980s the United States had the largest immigration boom in its postwar history. Between 1980 and 1989 more than six million legal immigrants alone came to its shores. In 1994 more than three million arrived illegally. The net effect of legal migration has been positive. The new

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arrivals bring needed skills, create businesses and jobs, and raise output. At the same time, the pool of unskilled labor has also increased, forcing down their wages. As with other facets of globalization, increased migration benefits countries overall, but it hurts some groups. The failure to address their dislocation will allow nativists to seize the debate, creating a more permissive environment not only for protectionism but for hate crimes, as is already evident in Western Europe.

RETRAINING REDUX

WHICHEVER EXPLANATION is most important, the fact remains that technological change, free trade, migration, and other forces such as defense cuts create losers as well as winners. The rationale for open economies is that, in principle, the gains will outweigh the losses for the country as a whole; thus, the winners can afford to compensate the losers. Under GATT and Bretton Woods, this compensation took the form of such short-term measures as trade adjustment programs, which provide unemployment insurance, retraining, and even support for moving to new communities. When a robust economy was creating lots of good jobs, everyone was made better off. But that is no longer the case. Today, a worker who loses his job is likely to find a new one only at lower pay. Indeed, as *The New York Times* reported earlier this year, 65 percent of workers who ultimately find jobs after a layoff do so only at lower levels of pay, and Morris Kleiner of the University of Minnesota has found that most such workers are still earning much less even five years later.

According to an analysis of dislocated defense workers in New England, defense workers should have an easy time finding new jobs, given their skills and experience with computers, precision tools, and quality control—even if these attributes have not been tested in the context of more highly competitive enterprises. But even among these workers, one in five of those who found new jobs had wage rates that "represented a pay cut of 40 percent or more." Indeed, over 60 percent of all dislocated workers "had noticeably lower hourly earnings."[5]

[5]Yolanda K. Kodrzycki, "The Costs of Defense-Related Layoffs in New England," *New England Economic Review*, March/April 1995, p. 16.

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Their experience with retraining should also counsel caution. Some could not afford the costs associated with these programs, while others had difficulty matching training opportunities to projected new job requirements. For still others, the lack of growth prospects in even distantly related industries raised questions about whether retraining was really a good investment. Overall, as the World Bank's 1995 *World Development Report* concluded, results are mixed regarding the value of training in helping unemployed workers find new jobs.

But even if training is a good investment, the cost of providing it to all unemployed workers is prohibitive. There are now some 34 million unemployed persons in the member countries of the Organization for Economic Cooperation and Development (OECD). If the average cost of retraining for each worker is $7,000, the total bill would be $238 billion. For the United States, with its 7 million unemployed, the total would be $49 billion. Today, the U.S. government spends about $10 billion on work-related education and training. In the current fiscal environment, it is difficult to imagine that number rising by the required amount.

Policymakers debating causes are like firefighters letting the house burn down.

On the contrary, these programs are being cut back. Since 1992, funds for labor market training and other active measures have fallen in such countries as Canada, Germany, Sweden, and the United States, the last especially ironic since Secretary of Labor Robert Reich is one of training's greatest devotees (though in fairness, he does have to contend with a Republican Congress). Incredibly, public spending for higher education has also fallen. In the United States, such expenditures were cut 10 percent in the early 1990s, and in Britain only marginally less. At the same time, in countries with federal structures, where the constituent states were expected to assume increased public burdens, local crises and fiscal stringency prevented them from taking up the slack. This is the very problem facing many Russian regions and American states.

It is odd that training has become the mom and apple pie of economists and public officials across the political spectrum when it could at best provide only a partial answer to the problems of dislocated work-

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ers, at least given the knowledge base about what works at current spending levels. Indeed, one learns in economics that policymakers should choose the most direct and efficient means for solving problems. This lesson suggests that if the concern is income inequality, policies should be adopted to close the income gap. If the concern is unemployment, more jobs should be created. Training should not be abandoned, of course, but it is not by itself a solution.

KEEPING GROWTH DOWN

IN DEVELOPING positive solutions, however, it is important to recognize that declining rates of economic growth, caused largely by a drop-off in productivity, are hurting all workers. Curiously, analysts have paid less attention to these indexes than to unemployment and inequality. But had the industrial countries continued to grow in the 1990s at their earlier postwar rates, many current headline issues would hardly attract attention. If growth had remained at the 1960s average of 3.5 percent instead of current levels of just over 2 percent, more jobs of all kinds would have been created, rectifying unemployment in Europe and obviating inequality in the United States.

In truth, this productivity slowdown remains a puzzle. Why is it happening if the industrial countries have invested heavily in technology and opened their economies to foreign competition? These things should have spurred productivity growth. At present there is no good answer, though hypotheses focus on such diverse factors as the widespread shift from manufacturing to services in the north, and the decline in educational attainment, especially in science and math, among workers in many of the industrial countries.

Between 1971 and 1978, according to the OECD, the members of the Group of Seven (G-7) enjoyed an average economic growth rate of 3.5 percent per year, and this during a period of severe oil shocks, with the consequent rise in energy prices and inflation. Since 1989, by contrast, growth has averaged 2.1 percent. For Japan, the drop has been even steeper. Its average growth between 1971 and 1978 was 4.5 percent, a number that has fallen in the 1990s to 2.4 percent. Meanwhile, between 1979 and 1994, unemployment in the OECD rose from 17.7 million and a rate of 5.1 percent to 34 million and a rate of 8 percent.

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Unfortunately, this slowdown in the 1990s followed on the heels of a period of inflation, deficit spending, and increasing government debt levels around the industrial world. In the G-7 the interest payments on government debt rose from 1.6 percent of GDP in 1980 to 2.5 percent in 1990. Today the figure stands at 2.8 percent. In order to stabilize their financial affairs, states adopted stringent monetary and, more recently, fiscal policies—in short, policies deemed sustainable or credible by financial markets. These policies privileged financial stability over employment. They were the welfare state's equivalent of a grapefruit diet. The problem is that, as with all diets, they can become obsessive and cause more harm than good.

Over time, special interest groups have become entrenched around particular sets of policies, creating bureaucratic sclerosis. Restrictive economic policies—reduced deficits, reduced spending, reduced taxes, and the most exalted deity, low inflation—have favored financial interests at the expense of workers and have created an international rentier class. For anyone with money to invest, the last 20 years have been bountiful. Fiscally restrictive policies have become an ideology of this class for all practical purposes, defended in the pages of the leading newspapers and economic journals and most of the Beltway think tanks. Public officials who adopt restrictive measures are labeled "responsible" by editorialists, and the markets reward their behavior, sustaining the ideology.

The politics of financial credibility has played out somewhat differently across the industrial world. In the United States they have centered around the balanced budget debate between President Clinton and Congress. Indeed, they led to Clinton's Hoover-like statement about big government in his recent State of the Union address. Policies have targeted inflation and fiscal expansion in recent years, but the benefits of this approach have yet to be widely shared. At the same time, polling data and other evidence, such as the results of the Republican presidential primaries, suggest that the American people are becoming increasingly worried about their economic security and want the government to do something about it. And this concern is not solely a local phenomenon. What in America was once called the battle between Wall Street and Main Street has now become global.

The budget debate is a case of ideology overriding economics. In fact, there is no reason a balanced budget must always be favored over

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Keynesian deficit spending. As economist Robert Eisner wrote in *How Real Is the Federal Deficit?* in 1986, "Deficits can be too small as well as too large." He reminds us that when "there is slack in the economy, deficit-induced demand stimulates output and employment." It may well be the case that Clinton has gone too far in agreeing with congressional Republicans about the need to balance the budget over the next seven years.

But there is no direct correlation between deficit spending and inflation, as Japan demonstrates. During most of the postwar era Japan has had far higher deficits than the United States as a percentage of GNP, but lower inflation. The reason is Japan's credibility when it comes to maintaining monetary stability. Given Japan's high savings rate, the markets have confidence in its ability to finance long-term debt obligations. Today Japan is the only industrial country that is taking a Keynesian approach to its economic problems, and its latest growth figures suggest that fiscal expansion has been beneficial. There is, in short, no reason that moderate fiscal relaxation must generate high inflation. Moreover, to the extent that Japanese levels of inflation become somewhat higher than those in the United States, they would contribute to easing tensions over the yen-dollar exchange rate.

In contrast, leaders in Europe, where deficits are also higher than in the United States, have demanded a rapid reduction in government spending in order to meet the criteria of the Maastricht treaty on monetary union. With Germany setting the economic rules of the game according to its domestic preferences, European states that wish to participate in the planned union must reduce their budget deficits to 3 percent of GDP by 1999. In France, where deficits are now running at 5 percent of GDP, the rules mean applying the ax to the state budget. These policies reflect an obsessive fear of Europe's traditional bouts of inflation, but the major central banks have done a credible job of maintaining monetary stability. What has been the point of adopting these anti-inflationary policies if they do not permit governments some fiscal room to maneuver?

Even in Russia one can see restrictive fiscal policies dismantling earlier contracts between the state and society. Thus, under stringent IMF discipline, Russia too must reduce its budget deficit. Those

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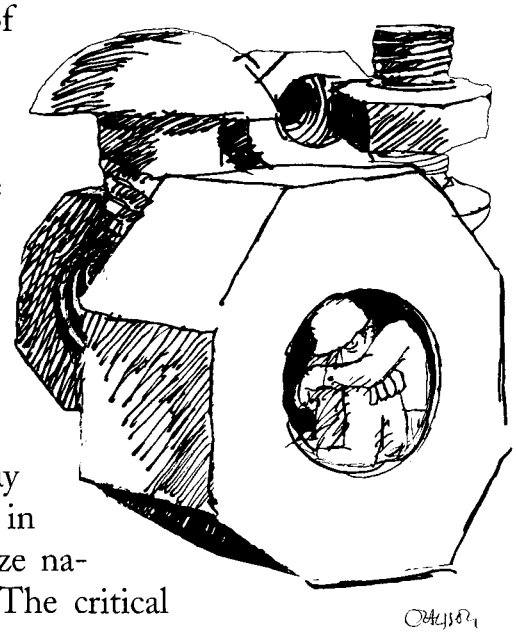
hardest hit have been pensioners, the unemployed, and the poor—again, the people most in need of state services. The collapse of the social safety net in Russia explains why the Communist Party received the largest share of the vote in the December 1995 Duma elections and why its leader, Gennadi Zyuganov, may be elected the country's president in June 1996.

LOOSENING UP

TO MEET THE growing problems of working people, governments must develop a coherent package of economic policies and programs supported by international policy coordination that generates renewed growth. Such a strategy, which will require some fiscal relaxation, has some costs, but the consequences of doing nothing will be worse, since disastrous measures like protectionism and nativism are again being mentioned, even in economically literate circles.

The starting point for any policy effort of this kind is the normative assertion that the appropriate goal of economic policy is to improve the lives of the citizenry. Monetary and fiscal policies should be structured in such a way as to ensure the fundamental promise that working people can earn a living wage. This means that in every industrial country policies must be directed toward helping people cope with the consequences of economic change. Of course, the appropriate policy mix will vary. In the United States, job insecurity, income inequality, and the plight of the working poor are now chief concerns. In Europe, job creation is key. Thus the policy for Europe would permit greater fiscal relaxation and that for the United States more income redistribution.



The argument that present-day fiscal restrictions must be maintained in order to balance budgets and stabilize national economies is without merit. The critical

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issue on the fiscal side is how governments spend the money. Just as with corporate investment, there is a difference between investments that are likely to yield long-term benefits and those that throw money down rat holes. To take an extreme case, no American during World War II said that the investment in armaments was a bad one, and it was gladly financed through bond issues and payroll taxes. Contemporary critics who would say that spending money on labor policies is unfair to the nation's children forget that the best thing that can be bequeathed to the next generation is social peace.

There is no direct correlation between deficit spending and inflation.

An expansionary strategy must include both microeconomic and macroeconomic elements, coupled with international policy coordination. Microeconomic policies, like the expansion of education and training, are needed to provide workers with the skills that will enable them to rejoin the labor market or find better career prospects. But these policies and programs are of little value if the economy is not producing good jobs. Macroeconomic policies, like fiscal relaxation and changes in taxation, are therefore required to provide a stimulus to spur economic growth. Taken together, these micro- and macroeconomic policies should translate into a better-educated and more productive work force. Finally, international policy coordination is necessary so that countries can develop expansionary policies within a collective framework, avoiding competitive currency depreciations that in the long run hurt everyone.

Governments that wish to assist unskilled workers have four choices: protectionism, education and training, public works programs and employment subsidies, and tax policy and income transfers. All of them entail costs, which must be paid for in one way or another.

Protectionism has received both renewed attention and scrutiny since candidate Patrick Buchanan's victory in the New Hampshire presidential primary. Buchanan, an avowed "economic nationalist," would place prohibitive tariffs on a range of imports in order to protect American jobs and wages. Unfortunately, whatever the alleged benefits of protectionism, the costs would outweigh them for most workers, and national income would certainly fall. Protectionism

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would lead to higher prices for all products, both foreign and domestic, resulting in lower consumption and an economic slowdown. Furthermore, America's trading partners could not be expected to sit passively while they were victimized; they too would erect higher trade barriers in response, eliminating markets for U.S. exports and the high-wage jobs that go with them. Since exports are the fastest-growing segment of the economy, policies that lead to their restriction deserve condemnation. In short, protectionism is a remedy that is worse than the disease.

Increased spending on education and training appears to be the only policy intervention that meets with universal approval across the political spectrum. Over a generation, unskilled workers will respond to the economic signals and opt for more education and training. Historical evidence suggests that this process occurs in most industrial countries undergoing significant economic change.[6] But the benefits of training for dislocated workers are uncertain, and the costs of universal training would be prohibitive. Clearly, the expansion of educational opportunities should play a central role in any democratic society and should be financed—it makes for good politics and good economics. It cannot, however, provide anything resembling a near-term solution to the structural problems of unemployment and inequality.

The third approach is to increase the number of jobs through public works programs or, perhaps more effectively, employment subsidies to the private sector. Few Western countries have pursued this tack as an explicit policy since the Great Depression, but it should be remembered that the New Deal was successful in creating jobs and reducing misery. Public job creation is relatively efficient and socially productive—since it provides younger workers with needed job experience—and it can be done fairly quickly. If the government subsidizes jobs, it will get more of them. Such policies, however, must be designed carefully to avoid an unproductive substitution of subsidized for unsubsidized workers.

This approach becomes all the more compelling in light of the sharp defense drawdowns among the member states of NATO. In the United States, for example, the size of the military force has shrunk

[6]Jeffrey G. Williamson, *Inequality, Poverty, and History*, Cambridge: Blackwell, 1991.

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by nearly one million since 1986, closing a once-promising route to education, training, experience, and responsibility for thousands of young adults. France will soon end military conscription. Alternative paths must be forged to help this population enter the workforce. Moreover, public works spending would counteract the fiscal drag of these defense cuts.

Finally, it is clear that tax policy and income transfers must play a key role in any serious effort to help working people and to finance new programs. One possible approach, combining in a sense the best of candidate Steve Forbes' flat tax and Senator Jeff Bingaman's (D-N.M.) proposal to tax financial transactions, would be to lower overall federal income tax rates—perhaps eliminating income taxes altogether for a large number of the working poor—while making them sharply more progressive up the income ladder. In the United States, the fiscal gap that resulted could then be covered by introducing a national value-added tax, at least on luxury goods. Most industrial countries already have a VAT. In principle, workers would still pay less in overall taxes, since their VAT payments would be lower than their income taxes under the current system, while the rich, who now enjoy a variety of tax loopholes, could not escape paying their fair share of the VAT. Most important, more job-related services could be provided than is now the case.

Public job creation is relatively efficient and socially productive.

In Europe, unemployment rather than income distribution is the key problem. Additional reforms are needed there if the goal is to increase labor market flexibility, the hiring of new workers, and small business creation. Again, the policies are not a mystery, and inaction reflects a lack of political will rather than of economic knowledge. Among these reforms, reductions in employer social charges such as health care costs and greater flexibility in hiring, firing, and setting work hours are absolute necessities. Small and medium-sized enterprises in particular, which are important generators of new jobs, are being stymied by these onerous charges. Furthermore, unemployment and other benefits in most European countries are simply out of proportion, and they give the jobless little incentive to seek work. Here, the Europeans probably could learn something from the United

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States. Savings in these areas could provide funds for programs that create employment. Unfortunately, Europe's technocratic leaders have done a poor job of explaining the economic situation to voters and have lacked imagination in promoting new ideas.

A recent Brookings Institution study of the policies needed to restore growth in the U.S. economy, including funds for education and training and adding spending for research and development, estimates annual expenditures on the order of $80 billion, a large but not Himalayan sum. In Europe with its far higher levels of unemployment, the costs would likely be greater. To pay for this program, the authors call for higher taxes on upper income groups, coupled with spending cuts in other areas, presumably defense. While one can disagree with the specifics, the cost estimate suggests the magnitude of the task that confronts decision-makers.

One of the main arguments against an expansionary strategy, of course, is that it is inflationary. In the current climate, inflation can be avoided if monetary discipline is maintained. But in the event, some inflation overseas, as in the Japanese case, might well suit American interests. For Europe, it may be time to reassess the costs associated with the doctrinaire German approach to monetary policy. While inflation is a scourge, so is double-digit unemployment, with its dangers to the global economy.

HANGING TOGETHER

NO SINGLE formula would produce an optimal set of policy reforms. Each industrial country must find its own mix, given its particular political and economic circumstances. But these efforts will be more effective if pursued as part of an international effort. Without such policy coordination countries will either be penalized by financial markets for adopting growth-oriented policies or they will aggressively pursue beggar-thy-neighbor currency devaluations.

Effective coordination in the G-7 is not impossible; the global economy could not have been built without it. Nor is there a risk that such growth-oriented coordination would be undermined by massive capital flight to East Asia or other regions, since the United States and other Western countries still dominate the global financial market-

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place. According to the OECD, in 1994 member countries were home to 90 percent of world stock market capitalization and bond issues.

A precedent for cooperation during hard times is the Bonn Summit of 1978. As the world economy was recovering from the oil crisis of 1973-74, the OECD called on governments to stimulate their economies to ensure that the growth prospects became a reality—remarkable in light of today's deflationary bias. The member countries agreed to a package of national measures that would collectively spur global growth. These included a reduction in U.S. oil imports, which led to a fall in world oil prices, and the implementation of expansionary policies in Germany and Japan. Unfortunately, the second oil crisis, caused by the Iranian Revolution, undercut most of these initiatives.

Like the Weimar elite, current leaders dismiss worker disaffection.

Why have Western countries eschewed this type of coordination in recent years? If they truly believe in globalization, they must accept that the economic performance of trading partners is converging. They should see such variables as growth rates, interest rates, and workers' wages approaching some common values. But instead, there are profound divergences in national economic performance, even in Western Europe, suggesting the continuing importance of domestic politics. This internecine competitiveness makes policy coordination difficult to achieve in the best of circumstances, but all the more so when growth is sluggish.

During the postwar decades, American leadership has time and again played a crucial role in leading the industrial countries out of the doldrums. The United States has assumed this burden not because it is magnanimous, but out of enlightened self-interest. Prosperous allies are needed for both economic and security reasons, and the OECD countries still generate by far the largest share of world trade. Today that leadership is absent. The president, perhaps pushed by Congress, seems to believe that domestic economic problems can be solved through domestic economic policies. The administration's singular focus on the international front has been export promotion. But American exports can increase only if the world economy continues to liberalize and grow.

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This is an age of widespread economic insecurity, brought about by profound changes in trade, finance, and technology. For globalization to proceed, public officials in every country must give the lie to those who assert that it is anathema to workers' interests. The best way to make this case is by restoring growth and opportunity. Restrictive economic policies may have been necessary when first conceived in the 1980s to bring stability to financial markets, but they have failed too many people too long.

While the world stands at a critical time in postwar history, it has a group of leaders who appear unwilling, like their predecessors in the 1930s, to provide the international leadership to meet economic dislocations. Worse, many of them and their economic advisers do not seem to recognize the profound troubles affecting their societies. Like the German elite in Weimar, they dismiss mounting worker dissatisfaction, fringe political movements, and the plight of the unemployed and working poor as marginal concerns compared with the unquestioned importance of a sound currency and balanced budget. Leaders need to recognize the policy failures of the last 20 years and respond accordingly. If they do not, there are others waiting in the wings who will, perhaps on less pleasant terms.

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Dealing with a Russia in Turmoil

Jack F. Matlock, Jr.

THE FUTURE OF PARTNERSHIP

OBSERVING RUSSIA'S increasingly assertive foreign policy, assault on human rights in Chechnya, unfinished democracy and market economy, and endemic crime and corruption, some in the West have ridiculed the notion of partnership and recommended policies that smack of a quarantine, if not outright reversion to Cold War confrontation. The Russian State Duma's March 15 resolution challenging the legality of the agreement to replace the Soviet Union with the Commonwealth of Independent States, coming on the heels of the Communist Party's strong showing in the December parliamentary elections, has fueled skepticism about the prospects for Russian democracy and responsible international behavior.

Other recent developments test the optimism of even the most enthusiastic supporters of cooperation with Russia. Instead of challenging the dangerous xenophobia mouthed by opposition politicians, President Boris Yeltsin has at times catered to it, apparently believing that will shore up his flagging popularity. Having failed to support those dedicated to building the institutions necessary for democracy and a healthy market economy, Yeltsin has removed virtually all reformers from key positions in his government while retaining many officials widely suspected of corruption. He joined in the opposition's verbal abuse of a foreign minister who was convinced that Russia's in-

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terests are consistent with those of the West and ultimately appointed in his place one who has long argued that Russia must take a more confrontational approach to the outside world. The war in the breakaway republic of Chechnya drags on despite periodic promises to end it.

Such developments cannot and should not be ignored, but they are only part of the story. Russian foreign policy remains generally consistent with U.S. interests despite occasional outbursts of hostile rhetoric. The Duma's declaration that agreements to end the U.S.S.R. are invalid has met not only protests but derision, and has become an embarrassment. Russia as yet has not significantly backtracked on the road to a market economy, and on March 16 Yeltsin issued a landmark decree that, if implemented, will finally establish citizens' right to own land. Nevertheless, the campaign for the presidential election scheduled for June creates fresh uncertainties. As it contemplates the possibility that the Russians could elect a communist president, now might be an opportune time for the United States to review its stake in Russia.

CLOSER THAN IT SEEMS

THE COLD WAR conditioned the United States and Russia to consider each other enemies, and the image is hard to erase. But the Cold War was about ideology, not Russian national interests. Before the communists took power, U.S.-Russian relations were usually cordial. Now that ideology no longer divides Washington and Moscow, the two countries' basic interests are compatible.

Among its most important interests in Russia, the United States counts the maintenance of responsible control over the arsenal of weapons of mass destruction, a rapid and substantial reduction in nuclear warheads and delivery systems, and the elimination of chemical and biological weapons. It would like to see Russia participate in a European or Eurasian security system that included the United States as well as western Europe. It wants Russia integrated into the world economy as a full-fledged member. Finally, it would like Russian cooperation in resolving regional disputes, and a working partnership in addressing global problems such as international terrorism, crime, and damage to the environment.

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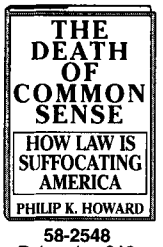

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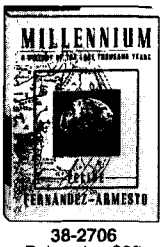

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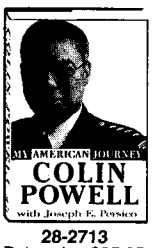

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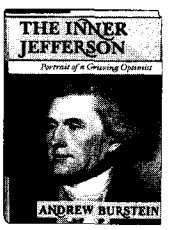

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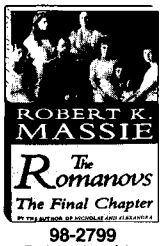

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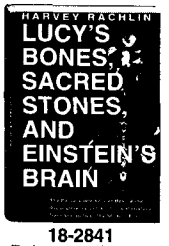

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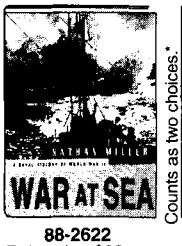

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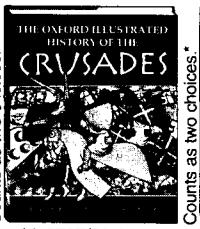

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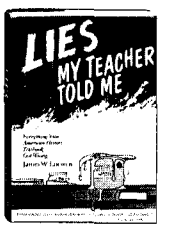

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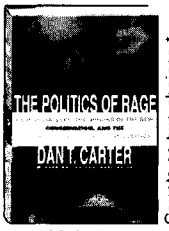

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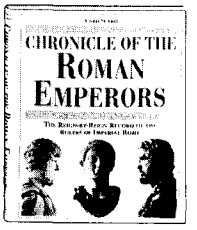

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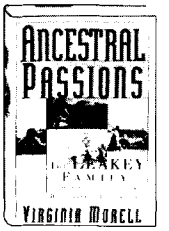

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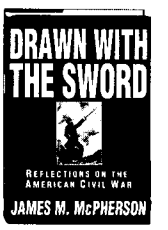

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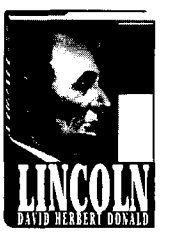

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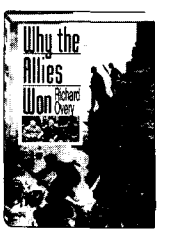

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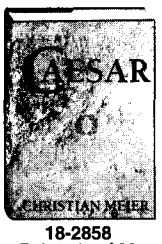

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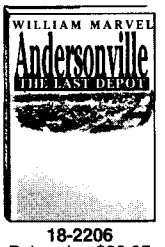

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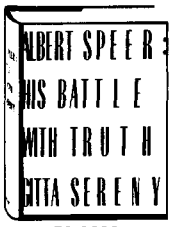

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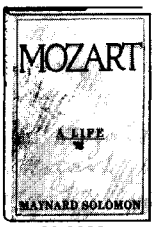

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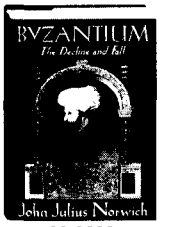

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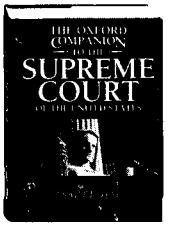

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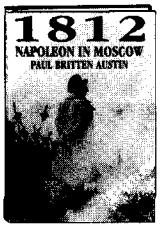

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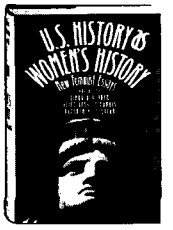

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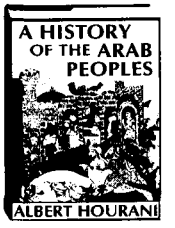

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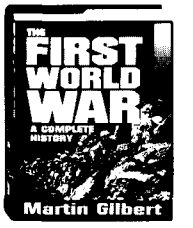

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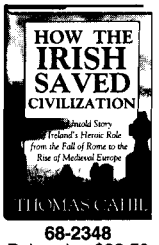

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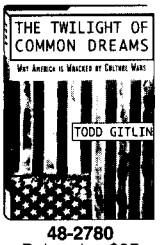

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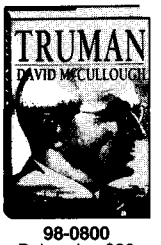

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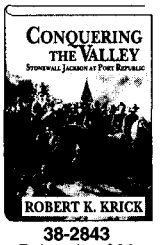

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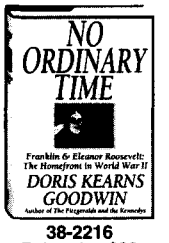

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Every one of these aims is fully consistent with Russia's national interests; indeed, Russians have a larger stake in most of them than Americans. Other interests are not shared to the same degree. A revival of Russian industry would bring much more competition for markets, as has already occurred in the sale of arms and construction of nuclear power plants. Russia, like the United States and every other country, will always be more sensitive to events in its neighborhood than to those that take place farther away. Furthermore, a large segment of the population desperately wants Russia to be seen as a great power, which can drive attention-getting behavior on the Gaullist pattern.

A Russian government that fails to understand its own interests is the greatest threat.

Some public attitudes have the potential for more serious mischief if they lead Russian leaders to threaten their neighbors. Most Russians feel their government should act as the protector of ethnic Russians living in foreign countries that were once part of the Soviet Union, while countries like Kazakhstan and Ukraine view this attitude as a symptom of an imperial mentality. Many Russians go even further, viewing the breakup of the Soviet Union as a national catastrophe and yearning to reassemble at least its major parts. Few would be willing to fight a war to gain this end, but most will resent and oppose any activity by outside powers that they believe undermines Russia's hegemony over the areas it once ruled. It is these emotional issues, which have great appeal among a disgruntled electorate, and not the true national interests of Russia, that could put Russian policy on a collision course with the West.

Even when basic interests are in accord, disputes can arise over the best means of reaching a common goal, clashing primary and secondary interests, or a misreading of interests. Moscow and Washington had their tense periods over Bosnia in 1994 and 1995, although they share an interest in a peace settlement that will bring the area stability and eventual ethnic reconciliation. Neither is seeking military bases, exclusive concessions, or hegemony. For various reasons, mainly historical, the Russians consistently opposed the use of military force by NATO, siding with the alliance's European members more often than with the United States. But as the cur-

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rent Russian cooperation with the Dayton accords makes clear, this behavior did not signal a conflict of basic interests.

Similarly, the dispute over Russia's contract to build a nuclear power plant in Iran does not stem from a conflict of strategic interests, as an Iran armed with nuclear weapons would pose a much greater threat to Russia than to the United States. This is an instance in which the Russian assessment of the consequences differs from the American. Russian officials say they are convinced that sufficient safeguards can be put in place to prevent diversion of nuclear material from the power plant to a weapons program. They may be wrong, and their conclusion may be driven more by pressure from a Ministry of Atomic Energy eager for the sale than a dispassionate weighing of the risks, but the dispute is not unlike those that erupt periodically between the United States and its allies over exports to regimes Washington does not like.

Although these sorts of disagreements are not always resolved to the complete satisfaction of both parties, they are manageable within a framework of cooperation on larger issues. With careful diplomacy, most are amenable to resolutions in which both sides gain something. Thus they are not likely to eclipse Russia's prospects for assuming a constructive role in world politics and the world economy.

What could genuinely threaten cooperation between Russia and the rest of the world would be a Russian government that failed to understand how compatible the country's interests are with those of the West and, in particular, the United States.

MYTHS OF ORIGIN

ONE OF the more portentous developments on the Russian political scene has been the alliance of communist and nationalist forces, which began in the last years of the Soviet Union and has reached near-fusion on the eve of the presidential campaign. Traditionally the nationalists were considered of the right and the communists of the left, but that distinction has lost its meaning. What unites the two today is an allegiance to the Russian imperial state. The communists, although they espouse socialist economics, hardly mention Marxism-Leninism anymore and have made concerted efforts to win the sup-

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port of the Russian Orthodox Church. Very little now distinguishes nationalists from communists, although not all nationalists are members of the Communist Party of the Russian Federation.

Russian nationalists, including communists, often describe themselves as *derzhavniki,* or proponents of a strong state. In so doing, they adopt one of the most persistent and erroneous myths in the Russian political tradition—namely, that the security and well-being of the Russian people depend on a strong state. The usual justification for a strong, authoritarian state is that it is necessary for protection against foreign invasion. Throughout history, however, Russians have suffered more from an overly powerful state than from invaders.

It was in the obvious interest of the czars to promote the myth, and in Stalin's to revive it. To perpetuate the tradition, today's Russian nationalists need a foreign enemy. Probably at no other time has the rest of the world been as favorably disposed toward Russia as it has been since the end of the Cold War. But that unprecedented goodwill has not deterred the would-be autocrats from creating a pseudo-world to fit their fantasies, misrepresenting recent events and drawing on the nineteenth-century Slavophile and pan-Slavic tradition for arguments at best half true and often completely false.

The chauvinists claim that a hostile West or, more often, the United States brought about the dissolution of the Soviet Union.[1] Current social and economic dislocation, they declare, are the result of that collapse, Russia's consequent loss of great power status, and a West determined to keep the country weak and subservient.

Rarely does one find an argument so demonstrably wrong in all its elements. The Soviet Union was not destroyed by the West; it collapsed because of its inherent defects and the ineptitude of its leaders. Once the Cold War ended, the major Western countries supported Soviet President Mikhail Gorbachev's efforts to create a voluntary union and were distinctly uncomfortable with the quick disintegration of the Soviet state. Economic prosperity has no corre-

[1] The United States pressed for democratic changes in the Soviet Union, and for the independence of the Baltic States, which it did not consider legally part of the Soviet Union. It did not, however, aim at the breakup of the U.S.S.R., and President George Bush and other Western leaders actively supported Mikhail Gorbachev's attempts in 1990 and 1991 to get republics to agree on a voluntary federation.

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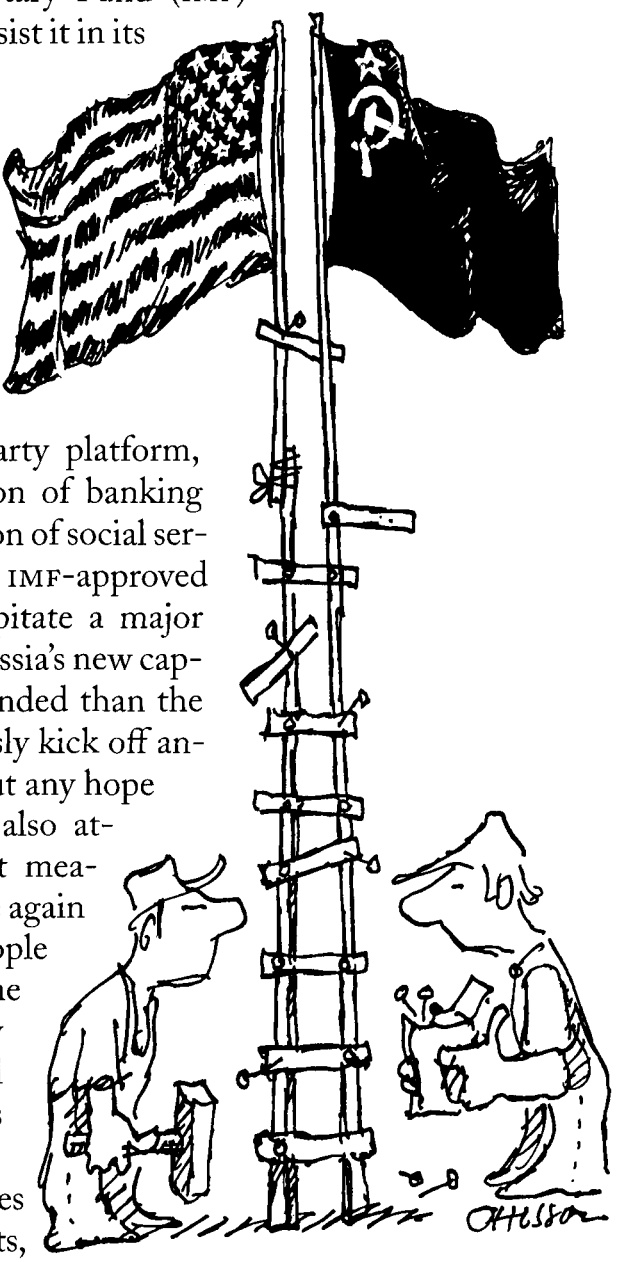
lation with great power status—if it did, Switzerland, Luxembourg, Sweden, and Singapore would be among the world's poorest countries. The Soviet economy was in a nosedive months before the union fell apart, and would have collapsed even more painfully had the economic reforms of January 1992 not been undertaken. Far from attempting to keep Russia weak, the West has made substantial efforts, including International Monetary Fund (IMF) loans of billions of dollars, to assist it in its difficult transition.



Facts, of course, rarely deter politicians intent on gaining power, but they can limit politicians' ability to carry out crazy ideas. Should the communists win the Russian presidency in June, they will face a dilemma. If they proceed in accordance with their 1995 party platform, which pledges renationalization of banking and key industries, the expansion of social services, and a departure from IMF-approved fiscal policies, they will precipitate a major political confrontation with Russia's new capitalists (who are now better funded than the communists) and simultaneously kick off another round of inflation without any hope of a Western rescue. If they also attempt to impose protectionist measures, shelves in stores will once again stand bare and lines of people waiting to buy will again become common in the cities. If they attempt to recentralize control over industry, many provinces will simply ignore them.

Being plodding functionaries rather than revolutionary zealots,

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the communists would have a strong incentive to downplay their campaign rhetoric and confine their changes to the cosmetic. Whatever damage they managed to do would primarily hurt Russia, not other countries. If the Russian people are so forgetful of the past and so credulous as to entrust their fate to bureaucratic demagogues purveying a demonstrably false doctrine, they will deserve the discomfort that ensues.

MISGUIDED GEOPOLITICS

OTHER PEOPLE, however, should not have to suffer for the Russian electorate's misjudgments—particularly the people in the other successor states of the Soviet Union. That the platform of the Russian Communist Party calls for the reintegration of the Soviet Union is ominous, and the proviso that it be accomplished by peaceful means is not terribly reassuring, considering the Orwellian twist that communists give words like "peaceful." But before concluding that the Duma has embarked on a concerted effort to force some of the other former republics back into a revived Soviet Union, one should ask whether that is likely to happen and whether it would serve Russian interests if it did.

Russia unquestionably has an interest in close economic and human ties with the former Soviet republics. Their economies are mutually dependent in many respects, personal and family links abound, and there are many elements of shared culture. Russia has excellent reasons for wanting open borders and a minimum of impediments to commerce and investment. Most members of the Commonwealth of Independent States (CIS) would benefit from a larger economic community, provided it is based on free enterprise, free trade, and reciprocal obligations. Many could also benefit from collective defense arrangements with a democratic and nonimperialistic Russia.

None of that will materialize, however, unless the governments of the CIS countries perceive closer relations to be in their interest, and they will not see them that way if Russia tries to achieve integration by force or threats. Such tactics, along with the obvious yearning of Russian nationalists to reconstruct the empire, undermine Russia's ability to achieve what is really in its interest: a close, friendly, nonthreatening relationship with each of its neighbors.

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The reactionary thinking of Russian chauvinists is also laced with crude geopolitical assumptions that territorial expansion equals power and prestige, that power and prestige bring prosperity, and that a great power need not deal with smaller neighbors as equals. Such thinking runs counter to Russia's real interests in the contemporary world, yet some Western observers also seem to accept it, at least in part. Their talk of power vacuums around Russia's borders that must be filled or left to Moscow's mercy also nourishes Russian chauvinist fantasies.

In truth, nothing can weaken a state more than an attempt to rule people who do not wish to be part of that state. A strong imperial power can enforce its will for long periods if it is willing to pay a high price in blood and treasure, but a weak imperial power cannot. And Russia, for all its fearsome weapons, is pitifully weak both militarily and administratively, unable even to quell a rebellion in one of its smallest provinces. (It can, of course, destroy the province, but military power is of limited political use if it can only destroy.) If Russia is to achieve the close relations with its neighbors that it needs, it must base them on mutual advantage, not threats and tantrums.

> If Russians elect a communist president, they deserve whatever discomfort ensues.

Another fallacious geopolitical argument dear to Russian nationalists holds that Russia is not a Western but a Eurasian power. At its most benign, this contention implies that Russia's role is to serve as a bridge between East and West. At its most pernicious, it suggests that the West is inherently Russia's enemy and thus Russia must ally itself with the East—whether the Islamic world, China, or both—in a cosmic East-West struggle.

Both variants approach the absurd. Russia is a Eurasian power in the geographic sense, just as the United States is both an Atlantic and a Pacific power. But Russia is primarily a European power, and no amount of wishful thinking can enable it to play off the "East" against the "West." Historically, it has had more conflicts with Islamic peoples than with Europeans, and it extorted much of its Asian territory from China; understandably, the Chinese and Islamic peoples of Central Asia have regarded Russians not as fellow Asians but as colonialists. The Japanese have viewed Russia as an imperial rival—one

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that even today occupies territories they consider rightfully theirs, notably the Kuril Islands. What can Russia offer any of these countries that they cannot obtain in greater abundance directly from the West? Russia will only doom itself to backwardness, stagnation, and worse if it distances itself from Europe in pursuit of some never-never alliance in the East.

TO YEARN FOR RETURN

IRRATIONAL ARGUMENTS that stir the emotions often have greater appeal than rational ones, particularly among estranged voters and ambitious politicians. Nevertheless, it is important that the West, blessed with more stable political and economic structures than Russia, make a special effort to deal rationally with the irrationalities it observes. The United States would harm itself in responding as if Russian rhetoric were reality, for that would seem to substantiate the premise on which the chauvinist case is based. An escalation of emotional responses on each side could eventually create the very condition the chauvinists seem to crave: a hostile West that forces Russia to turn inward.

Given the crude geopolitical view of the world that many Russians still hold, their country's relations with other Soviet successor states are matters of particular delicacy. American officials should be very clear, in their own minds as well as in their responses to Russian words and actions, where U.S. interests lie. Some Americans have proposed that Ukraine and Kazakhstan be bolstered as counterweights to Russia. That is putting it the wrong way. It is of no particular concern to the United States what political arrangements exist between Ukraine and Russia or Kazakhstan and Russia so long as they are based on mutual consent and are not directed against other countries. Few policies could be more dangerous and self-defeating than attempts to use Ukraine or Kazakhstan against Russia. It is, however, of prime importance to the United States, Europe, and Russia itself that solemn commitments regarding the independence and territorial integrity of states be respected unless and until they are changed by mutual consent, following the principles embodied in the Helsinki Final Act, to which all are parties.

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At the moment, Belarus is the only Soviet successor state to have expressed a serious interest in confederation with Russia, and President Alyaksandr Lukashenka is scheduled to sign a treaty providing for greater integration when Yeltsin visits April 2. Details are not available at this writing, but the official announcements suggest that the agreement stops short of confederation. Both countries will retain their statehood and their sovereign identity. Even the apparently limited treaty that has been announced has evoked large protest demonstrations in Minsk and criticism from Russian politicians such as presidential candidate Grigori Yavlinsky, who consider it too costly for Russia. Reintegration is unlikely to be easy, since a Belarusan dependency would be an expensive proposition for Moscow, particularly if, as seems to be the case, Belarus' motive is to obtain subsidies for its failing state-controlled economy. A confederation or even a federation, should one be concluded, will probably drain rather than augment Russian strength and would have little or no effect on Western interests. If both countries choose such a step by their constitutional processes, the United States and the West at large would have no cause for concern or protest.

Reality can sometimes keep politicians from carrying out crazy ideas.

Voluntary unions are one thing, duress another. The Duma should be publicly warned that its March 15 vote is not only a legal absurdity but potentially threatening to Russia. After all, the agreement with Ukraine for the transfer of nuclear weapons to Russia was conditioned on a reiteration of Russia's commitment to respect Ukraine's independence and territorial integrity, and it is also a commitment to the United States, which provided security and financial guarantees to seal the accord. If the legality of the agreements to create the CIS—which were ratified by overwhelming majorities in the parliaments of the Soviet republics that joined—is ever seriously called into question, it would open up embarrassing questions for Russia, such as its basis for occupying the seat in the U.N. Security Council formerly held by the Soviet Union, not to mention its membership in other international organizations as an independent country and the legality of its own borders. No sensible Russian government would tamper

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with the December 1991 agreements, and it is no wonder that Yeltsin immediately denounced the Duma vote as nonsense.

Despite occasional antic behavior in its parliaments, the Russian government has steadfastly repeated its pledge to respect the independence and territorial integrity of its neighbors. It gave no comfort to separatists in the Crimea and has not questioned Kazakhstan's right to retain its northern provinces, populated predominantly by Slavs, despite public appeals to create a Slavic commonwealth. It withdrew its troops from Estonia and Latvia even though it was dissatisfied with the status ethnic Russians had been granted in those countries. But it has permitted Russian officials' support of separatists in some former republics, notably Moldova and Georgia, and often attempts to assert a *droit de regard* over issues in the rest of the former Soviet Union that it considers to be of strategic importance.

Each of these instances has unique features, and it is difficult to generalize beyond saying that Russia has not always been scrupulous in avoiding interference in its fellow former republics. Even so, official actions have stopped far short of an organized campaign to reassemble the Soviet empire. Just how popular the nationalist slogans are with the Russian people is impossible to determine right now. Nationalist candidates without a heavy dose of populism in their programs have generally fared poorly, and this suggests that much of the vote for communist and other nationalist candidates is more a protest against economic conditions than a surge of imperial jingoism. One thing does seem clear: the overwhelming majority of Russians would decisively reject risking a civil war to reimpose control over neighboring countries.

Most of the successor states have proved proficient at resisting Russian pressure to compromise their sovereignty. The Russian nationalist claim that many former republics would return to a reconstituted Soviet Union if they had the chance is a delusion.

RATIONALITY IN AN IRRATIONAL TIME

American policymakers must bear in mind that Russia is going through an agonizing period of national redefinition under the most trying circumstances. Having discarded communist ideology, the na-

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tion is groping to understand its new place in the world while a third or more of the population is suffering great privation. Assuming that Russia's loudmouth nationalists are the wave of the future would be a mistake; quieter and more responsible forces are on the scene and may yet carry the day.

Since any sudden radical change in Russian policy, foreign or domestic, is unlikely, the United States can afford to be patient. The task for now is to encourage the Russian leadership to understand its real interests, and persuade it to do a better job of explaining them to the Russian public. For this approach to work, Washington must make it clear that the door is open to cooperation, and even partnership, so that it will be difficult for Russian nationalists to claim credibly that America is hostile.

Russia's relations with neighbors are its concern, so long as they are not coercive or aggressive.

While it should constantly stress the benefits of cooperation, the United States does Russia and itself no favor if it ignores or condones destructive Russian policies and actions. It must explain why such actions damage Russia's own interests and must have a comprehensive strategy for penalizing backsliding. If the Russian government should begin to adopt the policies its chauvinist opponents are now urging, it should be required to pay a tangible price in its relations with the United States and other Western countries.

Security questions invariably loom large in America's relationship with Russia, and the principal ones must be resolved if the momentum of weapons destruction is to be maintained. Much of recent Russian recalcitrance can be traced to a feeling that their country is being left out of the European security club. As a loner, Russia will always be a problem. Washington must assure Moscow that it places a high priority on creating a European security structure to which Russia is a party. Whether that is done through a treaty relationship between Russia and NATO, an augmentation of the authority of the Organization for Security and Cooperation in Europe, or some other mechanism is less important than the commitment to include Russia. NATO expansion to the east should be deferred while these arrangements are under active negotiation, provided Russia does not threaten other countries or seriously violate its OSCE obligations. To

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speed up the Duma's ratification of the START II pact on nuclear arms reduction, the United States should make it clearer that it is willing to negotiate substantially lower limits in a START III agreement.

The United States should engage the Russian military in as many cooperative efforts as are feasible. The joint peacekeeping operation in Bosnia, if successful, can have great symbolic meaning, and Washington should support a vigorous program of joint training and consultation under NATO's Partnership for Peace initiative for Warsaw Pact nations. A revival of proposals for joint research on ballistic missile defense would also be helpful.

Economic and technical assistance programs will be sharply reduced in budget squeezes, and in any event the time for large numbers of American and other foreign specialists roaming the country and sharing their skills is probably over. The greatest long-term payoff from limited funds will come from educational and cultural exchanges. Russians still need more exposure to the outside world if they are to understand how democratic societies and market systems work. Meanwhile Washington must continue to stress to the Russian government the importance of better legal and administrative protection for commercial rights and a more rational tax system if Russia is to attract the private capital it needs. At present, neither Russians nor foreigners are investing much money in the country, and that has contributed to the deterioration in living standards, which encourages extremism.

Russia should be more prominently engaged in the Middle East peace process, so long as its contribution is constructive. It is much more likely to cooperate if it is a participant, and those who feel Russia has nothing to contribute should be reminded that, even in its weakened condition, Moscow has the means to complicate or even block some settlements if it chooses. Its support in the U.N. Security Council is also necessary for decisions requiring that body's approval.

As for Russia's relations with the other former Soviet republics, Washington should signal that it does not object to more CIS integration as such, but only to attempts by Russia to impose its will on the others or to seek imperial rights on their territory. The United States should encourage Russia to make maximum use of OSCE instruments

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in resolving conflicts in the area, not only because the OSCE is likely to be the most effective vehicle for peacemaking but also because it is in Russia's interest to increase that organization's authority.

Chechnya is a particularly delicate issue for foreign governments. Russia's 1994 declaration of war on the province is clearly incompatible with its obligations to respect human rights, but the Russian government was confronted with an armed rebellion, and all governments reserve the right to put down rebellions by force if necessary. While Washington must work, publicly and privately, to urge Moscow to end the carnage and find a negotiated solution, it must do so without appearing to condone the actions of the Chechen leaders who seized power by force, intervened outside their republic (by supporting the Abkhazian separatists in Georgia), and periodically resort to terrorism. To treat the Chechen rebellion as if it were the peaceful exercise of the right to self-determination would be a grave mistake, since it would suggest to many Russians that America is determined to support the dismemberment of their country.

Ultimately Russia will decide its orientation. If it chooses isolation and hostility, let that be its own decision, not one forced on it by premature Western rejection. An isolated, sullen, impoverished Russia would present a greater challenge to a stable world order than a healthy, competitive Russia that is part of the order. But the United States, the West, and even Russia's immediate neighbors would have the means to protect themselves from the worst effects. The real loser would be Russia.

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Ukraine: Europe's Linchpin

John Edwin Mroz and Oleksandr Pavliuk

PRESERVING INDEPENDENCE

FIVE YEARS after independence, Ukraine watches the nationalist turn in neighboring Russia with unease bordering on alarm. Much of the Russian political spectrum, obsessed with reclaiming great power status and reuniting the former Soviet republics, recognizes that Ukraine is the key to its plans and openly espouses reabsorption. President Boris Yeltsin, instrumental in the 1991 dissolution of the Soviet Union, has, in his quest for votes, adopted much of the nationalist agenda; he has dismissed his Western-oriented foreign minister, Andrei Kozyrev, cracked down on the rebellion in Chechnya, and pursued formal union with Belarus. Continued progress in Ukraine toward democracy and free markets will be more difficult no matter who triumphs in Russia's presidential election in June. A victory for Gennadi Zyuganov, the Communist Party boss and the leading presidential contender, would give Ukraine's communists a second wind and could well throw Ukraine back into the instability that preceded reform.

With a landmass equal to France, a population of 52 million, a location at the crossroads of Europe and Asia, large agricultural and high-tech industries, and extensive natural resources, Ukraine is crucial for the stability of the continent, and uncertainty there would reverberate throughout Europe. An independent, democratic, and reform-oriented Ukraine can provide a model for Russia's development, prevent the emergence of the Commonwealth of Independent States (CIS) as a political and military alliance under Moscow's control,

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and promote stability in Central and Eastern Europe. The next year's events in Ukraine will determine whether the continent continues on its path toward integration or faces a new confrontational divide.

Regardless of the outcome of Russia's presidential contest, Ukraine has ample reason to suspect Moscow's long-term intentions. Russia has refused to negotiate the exact borders between the two states. The Duma has not annulled its 1993 resolution declaring Sevastopol a Russian city, nor has it canceled its order to review the 1954 transfer of Crimea from Russia to the Ukraine. Most recently, it proclaimed illegal the dissolution of the Soviet Union. In fact, many Russians believe that Ukraine's leaders, not its people, have been the impediment to closer relations, if not union, between the two countries.

But a majority of Ukrainians would not voluntarily agree to union with Russia. Ukrainians in the country's west have long associated domination by Moscow with political oppression and economic decline. Despite forces in eastern Ukraine that favor reintegration, nationalist sentiment has grown throughout the rest of the country. The prospect of again being a provincial outpost of Moscow does not appeal to Ukrainians, who contrast that scenario with improving conditions in neighboring countries like Poland, Hungary, and the Czech Republic. Ukrainians in the eastern, Russified areas have demonstrated in the two elections since independence that they will vote for the candidate best able to improve their economic situation. Thus in 1991 a majority of the eastern region voted to secede from the Soviet Union because an independent Ukraine seemed to offer better economic opportunities, but in 1994 a majority, judging that the Russian economy had improved and was clearly in better shape than their own, opted for a candidate who endorsed closer ties with Russia. With few exceptions, reintegration with Russia is in the interests of neither the new Ukrainian political elite nor much of the commercial class. In a recent set of interviews, Ukrainian entrepreneurs, many of whom are personally pro-Russian, argued that Ukrainian sovereignty protects the country's emerging business community from the rich, powerful capitalists of Russia.

Ukraine desires normal relations with Russia, but attempts to force it back under Moscow's thumb would further alienate its already

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suspicious population. Aggressive Russian efforts might lead to civil war in Ukraine, accompanied by an overwhelming refugee crisis and ecological disasters.

MISSILES INTO PLOWS

SINCE WINNING election as president of Ukraine in 1994, Leonid D. Kuchma has focused on the single greatest security threat to Ukraine—the near-collapse of its economy. Kuchma has been surprisingly successful, and Ukraine now has a fighting chance of following the Central European countries' example and creating a viable market economy. He has also worked hard to bind Ukraine to Europe while maintaining normal relations with Russia. Kuchma's presidential campaign concentrated on closer ties with Russia and the introduction of Russian (his native language) as Ukraine's second official language, and thus his stress on economic reform and relations with Europe is astounding. Though a former director of the world's largest missile factory, Kuchma has convinced his countrymen to relinquish their nuclear weapons, creating goodwill with the West. Most important, he has turned out to be a staunch defender of Ukraine's independence and sovereignty.

Kuchma's persistence has brought financial stabilization within reach. Inflation in 1995 decreased to roughly 150 percent, an enormous improvement over the 4,000 percent hyperinflation of just two years before. Total trade volume in 1995 grew by 32 percent, as trade with the West rose by 40 percent. For the first time in 60 years, Ukraine exported grain, reminding the world that it once was, and can again become, the breadbasket of Europe.

By securing the support of many voters in western Ukraine who had originally been against him, Kuchma has bridged the gap between the country's Russian-populated eastern half and its more nationalist west, restoring unity to the country and dispelling the specter of instability. Any significant shift in the course of reform would ruin his coalition, restrain economic growth, and split the country once again. Mindful of such dangers, Kuchma and his able prime minister, Yevhen Marchuk, have pursued radical economic reforms vigorously, despite resistance from powerful groups more

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interested in accumulating personal power and wealth than nation-building. The forces of opposition—the post-Soviet bureaucracy, the leftist-dominated parliament, the industrial and agricultural lobbies—have relentlessly attacked Kuchma and Marchuk's policies. Group and corporate interests often prevail in economic decisions, and corruption remains a serious problem, though less daunting than in Russia.

In 1995, following a pattern common to East European economies in transition, Ukraine's GDP declined, although at a lower rate than in past years. Total industrial production decreased by 11.5 percent and the production of consumer goods by 19.1 percent. Perhaps most disquieting was the sluggishness of privatization; less than 10 percent of the 8,000 targeted large and medium-size enterprises went into private hands in 1995. The government, which has been disappointingly indecisive in this regard, announced in March that it will speed up the privatization of 400 of these companies through international tender. Ukraine's difficulties in delivering on its commitments led the International Monetary Fund (IMF) in January to postpone the fourth tranche of a standby loan.

President Leonid Kuchma has staunchly defended Ukraine's independence.

Despite its size, agricultural potential, and key location, Ukraine has failed to attract major investors. Kuchma claims that the economy requires about $40 billion in private investment, but it received only $750 million between 1992 and 1995. He told New York investors last October that in 1994 direct foreign investment per capita was $12 in Ukraine versus $670 in Hungary, $319 in the Czech Republic, $298 in Estonia, and even $27 in Russia. The country's confusing tax laws and its failure to allow private property have combined with its economic instability to scare away many investors. Meanwhile, internal sources of financing remain very limited. A significant portion of the new Ukrainian business elite is parasitic and reluctant to invest in the Ukrainian economy. If Ukraine is counting on increased Western financial assistance and investment, it must take the necessary steps, such as large-scale privatization, banking sector reform, and capital market development. Unless Western investors bring their capital to

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Ukraine, disappointment may lead ordinary Ukrainians—like their Russian fellows—to harbor anti-Western sentiments.

Ukraine's mixed economic performance has caused foreign investors to be cautious, but some remain optimistic because of the country's political stability and commitment to democracy. The international community has applauded Kiev for its handling of the Crimean secession, which for several years seemed sure to spark serious regional conflict. Kuchma and Yeltsin displayed true statesmanship in defusing a potentially violent eruption there last year. Similar leadership will be required to complete negotiations over the Black Sea fleet. While many CIS countries have retreated from democracy, Ukraine has compiled a solid track record, particularly in its treatment of its national minorities. It was the first member of the CIS to enjoy a peaceful, democratic transfer of presidential power. In its transition, Ukraine has avoided violence, and its army has not been dragged into domestic political quarrels, let alone projected its power beyond the country's borders. Despite heated debates and political tension, strong leadership and democratic compromise have characterized Ukraine's politics since Kuchma's election. The June 1995 Constitutional Agreement between the president and the parliament, for example, temporarily resolved a serious deadlock by regulating the division of power between the legislative and executive branches, while setting out a procedure for the adoption of a new constitution. Last fall Ukraine became the second CIS country, after Moldova, to be admitted to Europe's "democratic club," the Council of Europe.

Still, Ukraine is the only country in the former Soviet Union that has not adopted a new constitution since independence, and Kuchma's June deadline will prove tough to meet. Many observers expect him to prevail by the end of the year, but his constant battles with the leftist forces in parliament provide skeptics with enough evidence to adjudge the current political situation fragile. As coal miners strike and religious tensions fester, Kuchma's opponents can easily exploit social unrest. Most of Ukraine's domestic and foreign policy dilemmas stem from the nation's tenuous unity. Its size, cultural diversity, and weak tradition of statehood seriously complicate its transition.

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WALKING A TIGHTROPE

KUCHMA'S FOREIGN policy aims to balance gradual but steady integration into Europe's political and economic structures with constructive, friendly relations with Russia. While many other Central European countries have declared their desire for admission into NATO, Ukraine has firmly committed itself to nonalignment. It has participated in NATO's Partnership for Peace program and now publicly seeks a special relationship with the alliance, parallel to that which Russia has demanded; it is a reluctant member of the CIS and has time and again refused to sign the 1992 Tashkent collective security agreement. Just as it has combated anti-Russian sentiment in its western region, the Ukrainian government has done its best to avoid anti-NATO paranoia, present in other CIS countries, in its eastern half.

Both Russia and the West have hailed Kuchma's success in persuading his country to abandon nuclear arms, even though many Ukrainians still view the decision as harmful to the country's long-term national security. Once the third-largest nuclear power and owner of the third-largest conventional force in Europe, Ukraine voluntarily transferred its tactical nuclear stocks to Russia in 1992 and started to remove and destroy its strategic nuclear weapons in 1994. Ukraine has already reduced its conventional forces from 800,000 to 500,000.

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Internal economic weakness makes Ukraine susceptible to outside pressures and has complicated Kuchma's foreign policy. The prime example of this vulnerability is Ukraine's dependence on Russia for energy. Russia supplies 80 percent of Ukraine's gas, and Ukraine has accumulated an energy debt of $4 billion, making energy Russia's most effective lever over the country. Gazprom, Russia's gas monopoly and a powerful lobby, has threatened to close the pipeline to Ukraine unless it pays its bill. At one point, in exchange for debt relief, Gazprom unsuccessfully maneuvered for stakes of between 35 and 50 percent in 15 of Ukraine's most profitable and strategic national enterprises.

Ukraine's foreign policy tries to balance between Russia and Europe.

Reducing this dependence on Moscow has become Ukraine's top priority. It has made some progress toward this goal by commercializing its oil import business, restructuring its debt, and using IMF standby loans to pay its gas bills. But the energy problem still awaits a comprehensive solution, and Russia has objected to some of Ukraine's stopgap measures. Last February, for instance, Ukraine found itself on the edge of an energy collapse: coal miners' strikes coincided with Gazprom's decision to stop dealing with Ukraine's commercial gas importers and with Moscow's decision to disconnect Ukraine from its electricity system. Until the energy problem is addressed, Ukraine will remain a weak state, vulnerable to Russian pressure.

Opposed to Ukraine's independence in 1991 and preoccupied with Russia in 1992 and 1993, the West has since become a significant supporter of Ukraine and its transition to a market economy. While serving briefly as prime minister three years ago, Kuchma criticized Western policy, saying that "on the map of world leaders, Ukraine does not even exist. They are indifferent [to] whether Ukraine is independent or not." Ignored by the West, Ukrainian policymakers lacked the confidence to pursue difficult decisions on nuclear disarmament and economic reform, and the West's focus on Russia further aggravated Kiev's sense of insecurity and made Ukrainian-Russian relations even more tense. That initial delay in formulating a clear Western policy has been responsible in part for Ukraine's tortoise-like progress toward capitalism.

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A discernible Western policy first emerged in 1994. Vladimir Zhirinovsky's strong showing in the Duma elections of December 1993 and Russia's subsequent great power posturing sent the first warning signals to the West. The election of Kuchma, then deemed pro-Russian, shocked the West out of its lethargy. Relations between the West and Ukraine have since improved substantially. Last summer British Foreign Secretary Malcolm Rifkind called Ukraine "a strategic pivot in Europe" that would determine the future prosperity and security of the continent. Even Russophile France has started to pay more attention to Ukraine. And American officials have stated that a free and independent Ukraine is "a vital strategic interest of the United States." Ukraine's accession to the Nuclear Nonproliferation Treaty and its launching of economic reforms prompted security assurances and financial support from Western governments and international institutions. Western assistance, pushed largely by Canada, the United States, and Germany, made possible Kuchma's macroeconomic reforms.

The latest figures show that since Kuchma began his reform program in late 1994, the World Bank and the IMF have committed a total of $3.4 billion in loans, $1.5 billion of which is slated for 1996. This year the European Union (EU) will provide $250 million, the European Bank for Reconstruction and Development $80 million, the United States $170 million, and the Export-Import Bank of Japan $180 million. Russia's rescheduling of $3 billion of Ukraine's energy arrears is another reason for the improvement in Ukraine's economic situation.

Since 1992 American and German firms have invested the most in Ukraine, $202.8 million and $129.6 million respectively. The EU's support strategy for the country, adopted in November 1994, marked an important step. It included trade concessions, accelerated political dialogue, and a framework for industrial, financial, and scientific cooperation. Particularly important was the signing and implementation of the interim agreement that gave Ukraine most-favored-nation trading status with the EU. Significantly increasing Ukrainian exports to the EU, the agreement helps Ukraine avoid becoming shackled to the CIS, which accounted in 1995 for 55 percent of Ukraine's exports and 57 percent of its imports. Current plans would admit Ukraine to the EU's single market after 1998.

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The Chernobyl nuclear reactor remains an irritant in relations between Ukraine and the Group of Seven industrialized nations. Ukraine's leaders believe that Western demands to close the plant ignore the social and political consequences of doing so without addressing Ukraine's overall energy situation. Nobody wishes to shut Chernobyl more than the Ukrainians, who will continue to suffer from the 1986 meltdown for many years to come. Yet by producing 40 percent of the country's energy, instead of their usual 25 percent, Chernobyl and the five other Ukrainian nuclear power plants prevented an energy crisis last winter. The recent memorandum of understanding between Ukraine and the Group of Seven may have diminished some of these misunderstandings; the memorandum stipulated the terms for decommissioning the Chernobyl nuclear station by 2000 but unfortunately did not discuss its funding.

STAYING THE COURSE

UKRAINE'S FUTURE lies within European structures, and the West should not slow this process. The West should adopt a double staircase approach—one for market reforms and one for political and security issues. Each Ukrainian step upward would be met by an appropriate and symmetrical step by the West. For example, were Ukraine to accelerate privatization and agricultural reform and further strengthen financial stabilization, Western institutions would expand assistance. Similarly, on the political level, Ukraine needs to resolve its constitutional stalemate. In return, the West would increase technical and financial support to the Ukrainian parliament and train larger numbers of Ukrainians for public administration and the judiciary.

The West can bolster Ukraine's security through strong, sustained economic support, with particular assistance in the energy sector. Under the leadership of the World Bank and the EU, Western and Ukrainian experts should develop an expanded energy strategy, beyond the EU's useful 1994 action plan for Chernobyl, which offered Ukraine a large aid package in exchange for timely closure of the flawed nuclear plant. Rationalizing Ukraine's oil refining capacity would by itself dramatically decrease the country's consumption; Ukraine loses some 40 percent of its crude during refining, but that

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figure can easily be cut to as low as 2 percent. The construction of an oil port at Odessa, currently blocked by hard-line local officials, would open Ukraine to Middle Eastern oil. Technologies that convert coal into gas would also make a significant difference. Western experts could help Ukraine develop a contingency plan in case of an energy crisis. As Ukraine transforms its agriculture industry, converting its large state-run farms into a cooperative farming system, the West can make sure Ukraine avoids Bulgaria's error of splitting such farms into units too small for international marketing.

A democratic Ukraine can serve as a model for Russia.

On the security side, while encouraging Kiev to cooperate extensively within the Partnership for Peace, NATO should negotiate a treaty that would guarantee Ukraine's neutrality. Given Ukraine's location and history, it must be a bridge, not a buffer, between Russia and Europe. Its market economy and democratic system could become a positive model for, and the single greatest influence on, Russia. Despite some antagonism, Russians regard Ukrainians as closer to them than any other nationality, except the Belarusans. Ukraine's failure would strengthen Russia's authoritarian tendencies and leave Europe substantially less secure.

Moscow must overcome its ambivalence about Ukraine and recognize how much the country can contribute to Russia's own development as well as to the stability of Europe. The economic and cultural ties between Ukraine and Russia are strong; the two countries enjoy a natural interdependence. Forty-six percent of Russian trade within the CIS goes to Ukraine, which is also the world's largest importer of Russian gas and oil. As democratic, free-market societies, these neighbors would soon enjoy a prosperity long denied their people. If Russia learns to live with Ukraine as an independent state, it will have overcome the most critical element behind several centuries of imperialism.

As for the rest of the former Soviet world, Ukraine increasingly determines whether the CIS remains a loose economic association or becomes a tight political and military confederation under Moscow's control. Ukraine leads the CIS nonaligned group, which also includes Moldova and Azerbaijan, in opposition to the creation of any supranational bodies or military and political mechanisms,

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and the CIS countries know that without Ukraine, a new Soviet Union is impossible. As Belarus merges with Russia, Ukraine's position becomes even more significant. While avoiding the institutionalization of the CIS as a security arrangement, Ukraine should pursue economic cooperation with Russia and the other states of the former Soviet Union.

The independence of Ukraine has fundamentally altered the status of the other Central and East European countries. For the first time in modern history, these countries find themselves separated from Russia. An independent and democratic Ukraine between Russia and the Czech Republic, Poland, and Hungary lays the groundwork for stability in Eastern Europe by fostering lower perceptions of threat and a greater sense of security in Prague, Warsaw, and Budapest. A new iron curtain in Europe is impossible if Ukraine enjoys a positive relationship with both the West and Russia. The West should encourage Ukraine to cooperate more extensively with the Central and East European states and urge it to join the Central European Free Trade Agreement.

Support that treats Ukraine as important in its own right will bolster reform-minded decision-makers and political forces there. It will help assure the success of reform in Ukraine and make Ukraine a model for Russia and the rest of the CIS. Given its strategic position, an independent and healthy Ukraine will indeed be the linchpin of stability in post-communist Europe.

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China after Deng

William H. Overholt

COPING WELL WITH SUCCESSION

NOW THAT Deng Xiaoping, the architect of China's astounding economic advancement, is about to exit the scene, it is worth asking whether the era of post-Deng politics has already begun. At 92, Deng is long past active leadership and healthy participation in decision-making. The corruption charges brought against some of his favorite cronies and the efforts of Jiang Zemin, general secretary of the Chinese Communist Party since 1989, to put his own stamp on policy show Deng's waning influence. But the Chinese system of powerful, trusted personal secretaries means that Deng's office carries on even when the master is asleep. So long as he has a pulse, Deng is more an institution than a man, and a certain public awe shapes the political environment.

Succession has four aspects: who will be the top leader, which generation seizes the reins of power, how the government will be structured, and which direction policies will take. Who will get the top job is largely unpredictable, but whoever he is, he cannot possibly achieve the stature of Mao Zedong or Deng Xiaoping. This is a structural change, not just a comment on available leaders. World War II produced Roosevelt, Truman, Eisenhower, Churchill, and de Gaulle. Similarly, only the stresses of the revolution could produce leaders of Mao's or Deng's stature. The governance of China after Deng will be spread among many leaders, and their policies will depend more on broad support and the consensus of elites than individual predilection.

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REUTERS/ARCHIVE PHOTOS

Chinese President Jiang Zemin and Qiao Shi, chairman of the National People's Congress, confer in the Great Hall of the People last year.

The standing and ideological bent of the new generation of leaders is much more ambiguous than those of the "immortals," the octogenarians who prove more mortal every month. The so-called third generation of Jiang, Premier Li Peng, and Vice Premier Zhu Rongji is largely made up of Soviet-style electrical engineers. But in many institutions, the more technocratic, market-oriented, politically relaxed, Western-oriented fourth generation of leaders whose members are now in their forties is grabbing power. The faster economic development progresses and the calmer China's relations with the outside world, the less the old ideological and nationalistic slogans will support the traditional third generation and the faster the center of gravity will shift toward the more liberal fourth.

China's totalitarianism has receded into what some call normal Asian authoritarianism. People can wear what they like, share opinions with their neighbors, choose their careers, change jobs, hear conflicting opinions from their national leaders, vote in competitive local but not national elections, move around the country with limited hindrance, start their own businesses, and in general do pretty much anything other than directly challenge the authority of the government. China after Deng will continue to move in the right direction. The United States should above all avoid hindering its evolution.

Twenty years ago the United States was asking what would become of South Korea after Park Chung Hee. Virtually everyone feared a return to the chaos and ideological polarization that had

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Vice Premier Zhu Rongji and Premier Li Peng, shortly before Li delivered his keynote address to the National People's Congress in 1995.

preceded him. Despite frightening struggles for the top position, however, the direction of Park's economic and foreign policies was never challenged. The same was true of Taiwan after Chiang Kai-shek, Singapore after Lee Kuan Yew, and Thailand after Prem Tinsulanonda. The reasons for the continuity in Korea were straightforward: the people had been on the borderline of starvation for generations, their leaders had suffered humiliation, and they had tried many policies but none seemed to work. Under Park they found a magic combination—development-oriented authoritarian politics and an export-led market economy—and gradually the fear of starvation, the forebodings of war, and the humiliation evaporated. Any leader who wanted to return to the days of Syngman Rhee, Chang Myon, or the Yi dynasty, or to experiment with some new radical variant, would have been repudiated by the leadership and most of the population.

Except for colonial Hong Kong, the great takeoffs of Asian nations have seen reforms tethered at first to a great leader but later continued by consensus. In all cases that consensus led to a gradual relaxation of autocratic rule. The pattern has been very different in most African and Latin American countries, as well as India and the Philippines, where the successes have not been sufficient to create fundamental consensus. But in China, as in other Asian countries, the consensus on the importance of economic development will eventually lead to more political progress.

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THE MARKET CONSENSUS

THERE IS a broad consensus in China about which policies were crucial to the rise of the people from hunger and the nation from humiliation. At the core is the overwhelming priority given to economic development and, its corollary, the gradual move toward a market economy. Among the 50 most prominent leaders, no voice argues that the state should retake farms, close off the economy from the world, or, like the Soviet Union, subsidize all state enterprises until the country goes bankrupt. All tendencies are toward market prices, development of capital markets, increased competition, an open economy, and reorganization of state enterprises. As in Taiwan years ago, the remaining ideologues (such as Propaganda Department head Deng Liqun) have been shunted into noisy impotence in the propaganda ministries.

There is of course conflict over important details. Conservatives like Li Peng advocate reform, but at a measured pace, because they worry about social stability and inflation. Liberals in the mold of former Premier Hu Yaobang want to move forward briskly, with less concern about inflation and social tremors. The range of opinion may be wider than the gap between Margaret Thatcher and former Labour leader Neil Kinnock but is much narrower than the spectrum in South Korea or Singapore in 1965.

Because it is subordinate to economic policy, foreign policy is also a matter of consensus. Deng wanted to focus attention and resources on the economy, so he was determined to have relatively friendly relations with Japan, the United States, Russia, noncommunist Southeast Asian countries, South Korea, Taiwan, Vietnam, and India. He also stopped supporting ideological insurgencies around the world and drastically cut the share of GNP going to the military, to about three percent today from ten percent in 1979.

Policy toward Hong Kong is also a function of the priority China gives to economics. Despite its conspicuous hatred of colonialism, since the founding of the People's Republic in 1949 the leadership has maintained a policy of protecting and nurturing Hong Kong's open institutions. At any time since 1949 China could have seized Hong Kong almost instantly, and for the last generation it could have gained control simply by turning off the water and waiting a few days. But an

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economically dynamic Hong Kong is useful. The shift from "politics in command" (one of Mao's favorite slogans) to a pride of place for economics has enhanced the importance of this early consensus on Hong Kong and led the leadership to consider why the colony is successful and what will keep it useful. Much of China's conflict with Britain derives from fears that Britain will change Hong Kong and destroy its economic dynamism. Beijing's policy toward Hong Kong is to preserve its structure so as to maintain its dynamism. Indeed, the first sentence of the Basic Law, the constitution China has written for Hong Kong, forbids socialism.

The consensus on preserving Hong Kong's system for economic purposes parallels an equally important consensus on the need for full Chinese sovereignty when the colony changes hands in 1997. Because of China's capitulation to British drug pushers in the Opium War a century and a half ago, one of the great humiliations of Chinese history, no leader could allow Britain once again unilaterally to dictate the governance of any part of China, as British Governor Christopher Patten has attempted. As Chinese sovereignty approaches, Hong Kong feels anxiety but also enthusiasm. Growth is rising, inflation declining. Emigration has fallen from 60,000 a year to 48,000, while immigration continues at far higher rates. In November foreign business confidence hit the highest levels in the history of the poll. Construction is omnipresent. The stock market has been one of the world's most bullish. Both China and Britain have forsaken ideology in favor of management. Serious bumps are coming, most notably from U.S. congressional inclination to back Patten, but the early mood for the transfer of sovereignty is confident.

No Chinese leader can allow Britain to govern a part of China unilaterally once again.

The consensus extends to development-oriented authoritarianism. All current Chinese leaders believe the nation needs a one-party system to constrain dissent while they impose difficult and painful reforms that will affect interest groups like the state enterprises that control vast resources and provide livelihoods for hundreds of millions. Here too they differ on details. Some cling to Marxist ideology, although most of the leaders under 50 reject Marxism privately, be-

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lieving they should follow in Park's development-oriented authoritarian footsteps. As in Taiwan and South Korea, they are gradually permitting social controls to attenuate. The media report a range of views rather than just the party line. Individuals' political speech is relatively free, short of calling for the organized overthrow of the leadership. People change jobs and move around much more freely. Citizens can sue the state. A majority can choose local officials through more or less competitive elections. Though one-party rule will remain, these are not token changes.

Since the end of the Cold War, most of the Chinese have accepted, as South Koreans and Taiwanese did until the mid-1980s, the view that economic priorities are the right ones and political liberalization should be slow. Unless the leadership ceases to deliver better living standards, the consensus is likely to persist until a generation or two from now when most can take food, shelter, and the health of their children for granted. Then, as in South Korea and Taiwan, political aspirations will change.

THE SOVIET EXAMPLE CANNOT HOLD

One of the most prevalent Western concerns about China, promoted notably by China scholar Gerald Segal, is that the country may disintegrate when Deng departs, with obvious implications for its economic and political progress. The former Soviet Union was a large communist empire and it disintegrated, proponents say, so perhaps China will too. News reports about conflicts between the provinces and the center are also more frequent, particularly reports about tension between dynamic coastal states and the stagnant interior.

The analogy between China and the former Soviet Union, however, does not hold. China was first unified some 2,200 years ago and has had numerous periods of authoritarian stability lasting 300 years or more, whereas the Soviet Union was a relatively late innovation. Rapid economic growth is pulling China together, as it has Indonesia and Thailand, whereas a collapsing economy tore the Soviet Union apart. Indonesia has far more cultural and political diversity and other challenges to unity than China but has pulled itself together through economic success. And whereas the former Soviet

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Union was less than half Russian, China is 94 percent Han Chinese. People in Guangdong squawk about taxes and bureaucrats in Beijing, but they are still patriotic Chinese, whereas Ukrainians did not feel Soviet and are not Russian.

The thesis that tensions between a dynamic coast and a stagnant interior will tear China apart falls before the economic evidence. Many interior provinces are poorer and growing more slowly than the fastest-growing coastal provinces, but growth is rapid throughout the country. For instance, Sichuan, with over 100 million people, is one of the slower-growing provinces, but its per capita income jumped by 50 percent in only 6 years. Such rapid growth in incomes, unheard of in the West, generates support for the central government.[1]

Provincial assertiveness does not imply national disintegration. After the terrible overcentralization under Mao, some decentralization was necessary. Market reforms by definition reduce the central government's control over some decisions, such as the composition of exports. Segal and others predict national disintegration, noting that the state controls less than half the economy, owns less than a quarter, and provides a shrinking amount of investment.[2] These figures are dramatic evidence not of regime failure but of the central government's success in moving rationally toward a market economy.

Originally provinces like Guangdong were instructed to test reforms, while neighboring provinces like Hunan were not and resisted following suit. Peasants stood at the Hunan-Guangdong border to block the shipment of raw materials to Guangdong. But soon they began to discern the spectacular benefits of reform and demand the same opportunities. This voluntary ideological shift has far-reaching and unifying consequences for the country, and the subsequent phasing out of special privileges for coastal provinces does no damage.

The center's ability to raise revenue and control the money supply was potentially jeopardized. Once the individual provinces controlled more resources than are available to most Third World central governments, the center's ability to control its own apparatus could have

[1]For further details, see the charts on pp. 105 and 107 of *The Rise of China,* New York: W. W. Norton, 1993.

[2]For example, Gerald Segal, "Tying China into the International System," *Survival,* Summer 1995, pp. 60-73.

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been put in doubt. Corruption and ideological disillusionment threatened to sever the strings Beijing manipulated to manage local affairs.

On some of these risks the evidence is largely in. The consensus in late 1993 among the central government and provinces on the division of tax revenues was tantamount to a corporation reaching a consensus on the outlines of a budget after a reorganization. The ability of the central bank to control the money supply through three successive cycles of inflation indicates that the national government retains control of that crucial lever. And the proven power of the central government to reassign provincial civilians and officials, together with the absence of any sign of military disloyalty to the regime, shows that those vital instruments of power remain intact.

Two serious risks remain: the government's declining ability to deliver resources, particularly to rural areas, through a chain of command eroded by endemic corruption, and the party's ability to remain vital at the local level in an era of corruption, ideological disillusionment, and loss of party control over jobs. Before reform began in 1979, China had a well-deserved reputation as substantially free of corruption. Now corruption is pervasive, and the speed with which it has spread is frightening. Party and government officials are frequently implicated, and in many places the military and police are prime culprits.

In response, Jiang has launched far-reaching anticorruption campaigns, not just in Beijing but also in Shenzhen, Guangdong, and Guizhou. The pattern under Deng of catching the goldfish and ignoring the whales ended in 1995 with the indictment of Politburo member Chen Xitong. It remains to be seen how long such government initiatives will be sustained and whether they will attack all corruption or will just be used to purge political opponents.

While corruption is pervasive, the top leaders are not in it for the money. They want power, prestige, and distinguished roles in the history books. The great Asian economic takeoffs—in South Korea, Taiwan, Hong Kong until the mid-1970s—have typically suffered from corruption, but the top leaders (Park, former Taiwan President Chiang Ching-kuo, Hong Kong's governors, Lee Kuan Yew) cared mainly about building their countries. So far, China's top leaders (Mao, Deng, Jiang, Zhu) clearly fit in that category. Furthermore, the thrust of Chinese policy, unlike that of Ferdinand Marcos' Philippines, has

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been to enhance rather than curtail competition. China used to have one airline; now it has over 30. Sectors like telecommunications and consumer goods have been opened much faster to foreign competition and involvement than in the other Asian miracle countries, including Japan and South Korea. All this could change, but for now China's pervasive corruption is not incapacitating.

In an effort to revitalize the center's administrative capacity, China has introduced competitive elections at the local level. Almost unnoticed in the West, Chinese villagers have acquired the ability to hold 4.2 million local officials accountable, and in many areas they are ferociously voting people out of sinecures.[3] To the extent these efforts succeed, they will create demand for competitive elections at higher levels. Eventually these will link up with the demands of Qiao Shi, chairman of the National People's Congress, that the congress be recognized as the ultimate source of authority. Thus dictatorial leaders have set in motion forces that over decades will create changes today's leaders would find unthinkable. The experience of the Kuomintang in Taiwan, originally a Leninist party like China's Communist Party, shows that such pressures can be accommodated and made compatible with exceptional economic growth. But it takes great wisdom to accept the need for accommodation and pace it properly. Such pacing is much more difficult given the enormous complexity of a country of 1.2 billion people like China, compared with Taiwan's 20 million.

Economically, China is much more open than Japan or South Korea was a generation ago.

In addition to the regions' disintegration, the Soviet analogy portrays China's economy in crisis, beset by rampant inflation and outmoded state enterprises. A list of recent major developments in China creates a strikingly different pattern. At the end of 1993, the leadership reached agreement on the greatest wave of economic reform since the Deng Xiaoping era began in 1978, and it launched those reforms within months. Reform unified and strengthened the currency, improved the tax system to produce more revenue, strengthened the central bank's regulatory authority while decreeing a large number of

[3]Yasheng Huang, "Why China Will Not Collapse," *Foreign Policy*, Summer 1995, p. 59.

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other banking reforms, and introduced a wide-ranging set of laws enhancing corporate, civil, and property rights. This wave of reform has produced measurable positive results. Since early 1994 the unified currency has strengthened despite high domestic inflation. That inflation initially worsened but has declined sharply to 14.8 percent annually, while economic growth remains among the world's highest, at 10.2 percent. Foreign exchange reserves have risen from $21 billion to over $70 billion. The 1995 grain harvest of 460 million tons set an all-time record. The lives of virtually all social groups have improved.

While state enterprises remain a chronic problem—indeed, the biggest obstacle to the next phase of economic reform—progress has been made. Certain industries like airlines, manufacturing, and retail distribution are improving efficiency under the whip of greater competition and tougher regulation. Large numbers of state enterprises have been effectively turned over to foreigners through joint ventures. Many inefficient enterprises have been folded into more efficient ones. Flying to Shanghai on China Eastern Airlines is comfortable. Eating or shopping at one of the rejuvenated restaurants or department stores can be a pleasure. Shanghai Auto now turns out well-constructed Volkswagens. The work forces of many state enterprises are earning most of their income moonlighting in the private sector. But the biggest, most inefficient, monopolistic enterprises have become worse rather than better. Shutting them down, Chinese leaders believe, would provoke riots. Mitigating the unrest would require an expensive safety net.

Overall, China is proceeding on a much more open model than Japan and South Korea a generation ago. Foreign direct investment in China was $34 billion in 1994 and $38 billion in 1995—more in one year than Brazil has received since World War II—which testifies to greater openness. China, for example, takes Motorola's pager system as its national standard, while Japan tailors regulations to keep Motorola out. China keeps construction costs down by letting Bechtel compete, while Japan still accepts the inefficiencies of its protected oligopolies. Avon's tens of thousands of Chinese Avon ladies would never have been tolerated in Japan or Korea. So attractive is the investment climate that substantial domestic capital disguises itself as foreign.

Chinese society is a gigantic enterprise that has been evolving from a rigid hierarchy with all authority concentrated in one man, all posi-

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tions awarded on the basis of party loyalty, and incentives based entirely on bureaucratic promotion to a system with greater delegation of authority, greater regard for expertise, incentives based predominantly on the market, and, at the lower levels, political authority based more on popular support. The changes in management structure are a work in progress, but many decisive goalposts have already been passed. Devolution of broad areas of economic authority to the provinces and the market has created a fundamentally new system. Assignment of broad taxation and regulatory authority to the provinces broke the chokehold of the central bureaucracy over the economy and created a diverse, competitive, creative approach to economic management. Only one person in five now works for the state. Due to its tremendous scale, the managerial reorganization's outcome is much less clear than the area of economic ideology. But unless outside interference stimulates a clampdown, overall success should continue.

THE THREATS TO CONSENSUS

IN THE PAST year, growing tensions between Beijing and Washington have undermined the broad priority China's leaders have granted economics over foreign policy. Jiang began 1995 by attempting to differentiate himself from his competitors through anticorruption campaigns, improved relations with the United States centered on an invitation to President Clinton to visit Beijing, requests for a reciprocal invitation to Washington, and better relations with Taiwan, starting with a statesmanlike eight-point policy declaration.

Washington quickly kicked out two of the three legs of Jiang's platform by encouraging Taiwan's international campaign for upgraded diplomatic status and welcoming Taiwanese President Lee Teng-hui to Cornell University after the State Department promised not to do so. Calls for containing China, support for Taiwan's reentry into the United Nations, proposals to send an ambassador to Tibet, a special Senate reception for Madame Chiang Kai-shek, harsh criticism of continuing human rights abuses, and proposals to invite Taiwan's president to address Congress emanated from that body. Feeling that the most powerful nation in history was threatening its sovereignty and convinced that Washington was deaf to normal diplomacy, China

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responded with angry nationalist rhetoric, military exercises, and missiles fired near Taiwan. These were symbolic steps, reminiscent of President Jimmy Carter's sailing aircraft carriers along the Persian Gulf in an impotent effort to spook Iran. China does not have the military capability to invade Taiwan, but because China sounded thuggish, most Westerners assumed an invasion was a real possibility.

Throughout the crisis, Beijing officials traveled the country warning that no one should threaten Taiwan's mainland investments. No one did. Beijing assumed everybody knew the noise would stop after Beijing had made its point and the economic lovefest with Taiwan would continue, but Americans did not understand. They began to view China as dangerously aggressive, which was just as inaccurate as China's view that the United States was trying to dismantle it. Because of these misperceptions, the world stands at the brink of an utterly gratuitous second cold war, much more dangerous than the first because China's rejuvenation has so far avoided the flaws that doomed the Soviet Union from within.

Policy consensus does not preclude lurid power struggles.

China's consensus covers most of the things that would be important to a foreign corporation planning to build a factory or a foreign minister managing diplomatic relations, but vast areas are still not set and are even more sensitive. The most obvious is who should get which leadership jobs. As the events after Park's death demonstrated, policy consensus does not preclude lurid power struggles. Deng has attempted to forestall infighting by giving Jiang more hats than Mao Zedong. In addition to being president of the country, Jiang is head of the Communist Party and the military. Giving three jobs of that stature to a single individual is not a sign of confidence. Rather, it is a fortress against an expected assault. If and when power struggles surface, the consensus means that they will not engender war, famine, or nationalization of private foreign investment, but they could certainly frighten stock markets in China, Hong Kong, and Taiwan.

A second dispute concerns the violent suppression of demonstrations in Tiananmen Square on June 4, 1989. The leadership, including Jiang, has insisted that in the absence of crowd control specialists and sophisticated technology, putting a prompt end to the incident by

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firing on the students was both necessary and morally right. But entire generations of educated elites in the party and, especially, the army disagree. Many army leaders were appalled at the idea of firing on students and to restore their honor they want an acknowledgment that they were forced to obey misguided civilian politicians. The regime will eventually have to face these demands. In 1947 Chiang Kai-shek forcibly put down a Taiwanese demonstration at a cost of 18 times more deaths than Tiananmen Square, and his party could not lay the issue to rest for five decades, until last year, when the government apologized and paid the victims compensation. Likewise, South Korea is just coming to terms with the 1980 suppression of student protests at Kwangju, which was also more violent than Tiananmen Square.

As in Taiwan and Korea, this issue may be deferred. Public anger focuses on Li Peng and the Beijing municipal government, the most outspoken supporters of the military action, even though they were not the decision-makers. However, Li Peng is scheduled to step down in 1997, and the Beijing city government, formerly under Mayor Chen Xitong, is being purged for corruption. Today's top Chinese leaders are from Shanghai, where the 1989 demonstrations were handled wisely, without casualties. These developments probably make it possible to defer the issue until it can be addressed without initiating a clash with sitting leaders.

A far more fundamental disagreement is whether the party should continue to use the National People's Congress as a rubber stamp, the traditional practice, or begin to enforce congressional regulations and policies. The congress has gradually begun to assert itself. It forced Li Peng to make changes in his annual work report and threatened to veto the Three Gorges megadam project and even Li Peng's 1989 declaration of martial law during the Tiananmen Square incident. Under the guidance of Chairman Qiao Shi, a member of the Standing Committee of the Politburo with deep roots in the security forces and a broader vision of the future than some of his colleagues, the congressional leadership has been outspoken in its demands for a leadership role. Jiang and Li Peng are too traditional to consider the change, but noteworthy progress has already occurred. The reformation of the Taiwan legislature shows that a Leninist structure can evolve toward greater popular ac-

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countability. In all probability the change in the Chinese legislature will be inexorable but so gradual that for some time Western journalists will not notice it.

The debate over the role of the legislature is part of the broader pressure in China to enhance the role of law. Business, both foreign and domestic, is pushing for a less arbitrary system of regulation. The shift would involve a major change in the Confucian tradition, which is moralistic rather than legalistic. The Confucian ideal has always been moral arbitration in a manner Westerners associate with the biblical King Solomon. By the standards of that tradition, the Chinese business arbitration system does not work badly, but a mismatch arises when the issue is, say, a Microsoft bid to take over Intuit. King Solomon can rule either way; highly codified Western law is much more predictable.

There is tremendous resentment of those who have become rich.

The national upheavals since 1949 have convinced even many senior leaders of the Communist Party that what they call the "emperor system" is too arbitrary. "We've had Emperor Mao and Emperor Deng," one party elder told me. "They've done some good things and some bad things, but they've kept our country and our families in upheaval. We need a government with a division of labor based on law." While these Chinese leaders' desire for law is based primarily on a desire for order, as opposed to human rights, rejection of arbitrary rule is the historical foundation for rights as they are understood in the West. Now that some citizens are suing the government, and occasionally winning, the pressure to curtail arbitrary rule is becoming a tide—not a tidal wave by any means, but a gradual flow that is engulfing whole areas of patronage and party dictatorship. Dissident Wei Jingsheng can testify that this trend has a long way to go, as Kim Dae Jung could have testified in South Korea 20 years ago. But so far things are changing at least as fast in China as they did in Taiwan and South Korea.

In economics, a sharp dispute over the importance of ownership remains. The more old-fashioned socialists cling to the beliefs that state ownership of large enterprises is necessary if they are to be managed in the interests of society and that most state-owned enterprises can be made efficient without being sold. Others argue that the state

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ought to be little more than a regulator. This debate is not terribly different from those that have taken place in the West; the center of the British Labour Party 30 years ago was not far from the effective left of the Chinese Communist Party today. Such disputes tend to be resolved everywhere outside Eastern Europe (Western Europe took the gradualist, Chinese way) by putting both governments and economies on the slippery slope of pragmatic experimentation, which invariably leads to more competition, private ownership, and private management. But the process takes time.

The experiences of South Korea and particularly Taiwan show that so long as the leadership continually adapts incrementally, social pressures can be channeled in ways that strengthen the political base of the regime. However, if a regime tries to push back the tides, they can build in power and overwhelm the regime. That is the lesson from the demise of the Soviet Union. The Chinese leadership has bitterly denounced "peaceful evolution" but has in fact evolved peacefully at rates that have revolutionized the society in only 17 years.

THE REMAINING OBSTACLES

WHILE POLITICAL and economic reforms are not tearing the country apart, they are causing social strains. At the local level, there is tremendous resentment of the small number of people who have become rich. This has caused dramatic increases in crime and occasional riots. So long as rapid income growth reaches most groups, local resentment will remain local. If overall progress stopped or corruption and inefficiency rendered the central government incapable of delivering services to the farmers, then China would be back in a pre-1949 situation where local discontents coalesced into a revolutionary movement.

Human rights abuses remain severe, large numbers of dissidents remain in jail, and an era when the government will tolerate an organized challenge is nowhere in sight. If China continues to develop rapidly, courageous dissidents will someday usher in the future. But they will not be the wave that comes immediately after Deng. If the Communist Party proceeds in its economic reform and political adaptability, it could well be in power just as long as the only other

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Leninist system in the region that has held local elections—the Kuomintang Party, which still rules in Taiwan.

The mood of China on the eve of the succession is conservative but energetic. The leaders' priorities are social stability, the digestion of the early 1994 reforms, restoration of growth in farm incomes, the gradual conquest of inflation, and the quest for strategies for state enterprise that do not jeopardize the livelihoods of large numbers of people. The vital question is whether China's vast ministries can work together without a superhero for a leader.

Western perceptions of China suffer from the ultimate half-full, half-empty problem. The Chinese are extremely poor, but at no time in history have living standards improved so fast for so many. Wages are low, but the typical Chinese worker is content with raises that are much more rapid than those in the West, past or present. China is authoritarian, but the improvement in freedom of speech, information, movement, and occupation in the last 15 years is unprecedented. China's government is a brutal dictatorship, but its leaders are addressing the most pressing needs of the people, and competitive elections affect the lives of the ordinary Chinese more than elections affect ordinary citizens of democratic India. China's military budget is growing rapidly, as Japan's did when that country's economy was in a similar phase, but as with Japan the military's small share of GNP demonstrates its low priority. Doing business in China is exasperating, but foreigners are investing and profiting more than any expert imagined possible. China's regulations are fraught with unfair practices, but the structure is becoming much more open than many capitalist allies'. China's discontents have become much more visible, but China after Deng will remain more unified, stable, and secure than at any time in the last two centuries.

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The Myth of Post–Cold War Chaos

G. John Ikenberry

THE 1945 ORDER LIVES ON

A GREAT deal of ink has been shed in recent years describing various versions of the post–Cold War order. These attempts have all failed, because there is no such creature. The world order created in the 1940s is still with us, and in many ways stronger than ever. The challenge for American foreign policy is not to imagine and build a new world order but to reclaim and renew an old one—an innovative and durable order that has been hugely successful and largely unheralded.

The end of the Cold War, the common wisdom holds, was a historical watershed. The collapse of communism brought the collapse of the order that took shape after World War II. While foreign policy theorists and officials scramble to design new grand strategies, the United States is rudderless on uncharted seas.

The common wisdom is wrong. What ended with the Cold War was bipolarity, the nuclear stalemate, and decades of containment of the Soviet Union—seemingly the most dramatic and consequential features of the postwar era. But the world order created in the middle to late 1940s endures, more extensive and in some respects more robust than during its Cold War years. Its basic principles, which deal with organization and relations among the Western liberal democracies, are alive and well.

These less celebrated, less heroic, but more fundamental principles and policies—the real international order—include the commitment to

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an open world economy and its multilateral management, and the stabilization of socioeconomic welfare. And the political vision behind the order was as important as the anticipated economic gains. The major industrial democracies took it upon themselves to "domesticate" their dealings through a dense web of multilateral institutions, intergovernmental relations, and joint management of the Western and world political economies. Security and stability in the West were seen as intrinsically tied to an array of institutions—the United Nations and its agencies and the General Agreement on Tariffs and Trade (GATT) only some among many—that bound the democracies together, constrained conflict, and facilitated political community. Embracing common liberal democratic norms and operating within interlocking multilateral institutions, the United States, Western Europe, and, later, Japan built an enduring postwar order.

The task is not to discover a new order but to reclaim the old.

The end of the Cold War has been so disorienting because it ended the containment order—40 years of policies and bureaucratic missions and an entire intellectual orientation. But the watershed of postwar order predated hostilities with the Soviet Union. The turning point was not a Cold War milestone such as the announcement of the Truman Doctrine in 1947 or the creation of the Atlantic alliance in 1948-49. It might have come as early as 1941, when Roosevelt and Churchill issued the Atlantic Charter declaring the liberal principles that were to guide the postwar settlement. The process became irreversible in 1944, when representatives at the Bretton Woods conference laid down the core principles and mechanisms of the postwar Western economic order and those at Dumbarton Oaks gave the political aspect of the vision concrete form in their proposals for a United Nations. The Cold War may have reinforced the liberal democratic order, by hastening the reintegration of Germany and Japan and bringing the United States much more directly into the management of the system. But it did not call it forth.

In world historical terms, the end of the Cold War is an overrated event. Former Secretary of State James A. Baker III observes in his 1995 memoir, *The Politics of Diplomacy,* "In three and a half years [from the late 1980s to the early 1990s] . . . the very nature of the international system as we know it was transformed." To be sure, large parts of the

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non-Western world are undergoing a tremendous and difficult transformation. A great human drama is playing itself out in the former communist states, and the future there hangs in the balance. But the system the United States led the way in creating after World War II has not collapsed; on the contrary, it remains the core of world order. The task today is not to discover or define some mythic new order but to reclaim the policies, commitments, and strategies of the old.

A TALE OF TWO DOCTRINES

World War II produced two postwar settlements. One, a reaction to deteriorating relations with the Soviet Union, led to the containment order, which was based on the balance of power, nuclear deterrence, and political and ideological competition. The other, a reaction to the economic rivalry and political turmoil of the 1930s and the resulting world war, can be called the liberal democratic order. It culminated in a wide range of new institutions and relations among the Western industrial democracies, built around economic openness, political reciprocity, and multilateral management of an American-led liberal political system.

Distinct political visions and intellectual rationales animated the two settlements, and at key moments the American president gave voice to each. On March 12, 1947, President Truman delivered his celebrated speech before Congress announcing aid to Greece and Turkey, wrapping it in an American commitment to support the cause of freedom worldwide. The declaration of the Truman Doctrine was a founding moment of the containment order, rallying Americans to a new great struggle, this one against what was thought to be Soviet communism's quest for world domination. A "fateful hour" had struck, Truman said, and the people of the world "must choose between two alternate ways of life." If the United States failed to exercise leadership, he warned, "we may endanger the peace of the world."

It is often forgotten that six days before, Truman had delivered an equally sweeping speech at Baylor University. On this occasion he spoke of the lessons the world must learn from the disasters of the 1930s. "As each battle of the economic war of the Thirties was fought, the inevitable tragic result became more and more apparent," said Truman. "From the tariff policy of Hawley and Smoot, the world went on to

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Ottawa and the system of imperial preferences, from Ottawa to the kind of elaborate and detailed restrictions adopted by Nazi Germany." Truman reaffirmed America's commitment to "economic peace," which would involve tariff reductions and rules and institutions of trade and investment. When economic differences arose, he said, "the interests of all will be considered, and a fair and just solution will be found." Conflicts would be captured and tamed in a cage of multilateral rules, standards, safeguards, and procedures for dispute resolution. According to Truman, "This is the way of a civilized community."

But it was the containment order that impressed itself on the popular imagination. In celebrated American accounts of the early years after World War II, intrepid officials struggled to make sense of Soviet military power and geopolitical intentions. A few "wise men" fashioned a reasoned and coherent response to the global challenge of Soviet communism, and their containment strategy gave clarity and purpose to several decades of American foreign policy. Over those decades, sprawling bureaucratic and military organizations were built around containment. The bipolar division of the world, nuclear weapons of growing size and sophistication, the ongoing clash of two expansive ideologies—all these gave life to and reinforced the centrality of the containment order.

By comparison, the thinking behind the liberal democratic order was more diffuse. The liberal democratic agenda was less obviously a grand strategy designed to advance American security interests, and it was inevitably viewed during the Cold War as secondary, a preoccupation of economists and businessmen. The policies and institutions that supported free trade among the advanced industrial societies seemed the stuff of low politics. But the liberal democratic agenda was actually built on a robust yet sophisticated set of ideas about American security interests, the causes of war and depression, and a desirable postwar political order. Although containment overshadowed it, the postwar liberal democratic order was more deeply rooted in the American experience and an understanding of history, economics, and the sources of political stability.

The proper foundations of political order have preoccupied American thinkers from the nation's founding onward, and innovative institutions and practices were developed in response to independence,

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continental expansion, civil war, economic depression, and world war. The liberal ideal was held high: open and decentralized political institutions could limit and diffuse conflict while integrating diverse peoples and interests. Moreover, a stable and legitimate political order was assured by its grounding in the Constitution, which specified rights, guarantees, and an institutionalized political process. When American officials began to contemplate postwar order, they were drawing on a wellspring of ideas, experiments, and historical lessons and sifting these with an abiding liberal belief in the possibility of peaceful and mutually beneficial international relations.

The most basic conviction underlying the postwar liberal agenda was that the closed autarkic regions that had contributed to the worldwide depression and split the globe into competing blocs before the war must be broken up and replaced by an open, nondiscriminatory economic system. Peace and security, proponents had decided, were impossible in the face of exclusive economic regions. The challengers of liberal multilateralism, however, occupied almost every corner of the advanced industrial world. Germany and Japan were the most overtly hostile; both had pursued a dangerous path that combined authoritarian capitalism with military dictatorship and coercive regional autarky. But the British Commonwealth and its imperial preference system also challenged liberal multilateral order.

The hastily drafted Atlantic Charter was an American effort to ensure that Britain signed on to its liberal democratic war aims.[1] The joint statement of principles affirmed free trade, equal access to natural resources for all interested buyers, and international economic collaboration to advance labor standards, employment security, and social welfare. Roosevelt and Churchill declared before the world that they had learned the lessons of the interwar years—and those lessons were fundamentally about the proper organization of the Western political economy. America's enemies, its friends, and even America itself had to be reformed and integrated into the postwar economic system.

[1]Churchill insisted that the charter not mandate the dismantling of the British Empire and its system of trade preferences, and only last-minute sidestepping of this controversial issue made agreement possible.

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THE LIBERAL MANIFESTO

THE POSTWAR liberal democratic order was designed to solve the internal problems of Western industrial capitalism. It was not intended to fight Soviet communism, nor was it simply a plan to get American business back on its feet after the war by opening up the world to trade and investment. It was a strategy to build Western solidarity through economic openness and joint political governance. Four principles pursued in the 1940s gave shape to this order.

The most obvious principle was economic openness, which would ideally take the form of a system of nondiscriminatory trade and investment. As American strategic thinkers of the 1930s watched the world economy collapse and the German and Japanese blocs emerge, they pondered whether the United States could remain a great industrial power within the confines of the western hemisphere. What were the minimum geographical requirements for the country's economic and military viability? For all practical purposes they had their answer by the time the United States entered the war. An American hemispheric bloc would not be sufficient; the United States needed secure markets and supplies of raw materials in Asia and Europe. Experts in a Council on Foreign Relations study group reached a similar conclusion when considering the necessary size of the area on which the United States depended for economic vitality.

American thinking was that economic openness was an essential element of a stable and peaceful world political order. "Prosperous neighbors are the best neighbors," remarked Roosevelt administration Treasury official Harry Dexter White. But officials were convinced that American economic and security interests demanded it as well. Great liberal visionaries and hard-nosed geopolitical strategists could agree on the notion of open markets; it united American postwar planners and was the seminal idea informing the work of the Bretton Woods conference on postwar economic cooperation. In his farewell remarks to the conference, Secretary of the Treasury Henry Morgenthau asserted that the agreements creating the International Monetary Fund and the World Bank marked the end of economic nationalism, by which he meant not that countries would

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give up pursuit of their national interest but that trade blocs and economic spheres of influence would no longer be their vehicles.

The second principle was joint management of the Western political-economic order. The leading industrial democratic states must not only lower barriers to trade and the movement of capital but must govern the system. This also was a lesson from the 1930s: institutions, rules, and active mutual management by governments were necessary to avoid unproductively competitive and conflictual economic practices. Americans believed such cooperation necessary in a world where national economies were increasingly at the mercy of developments abroad. The unwise or untoward policies of one country threatened contagion, undermining the stability of all. As Roosevelt said at the

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opening of Bretton Woods, "The economic health of every country is a proper matter of concern to all its neighbors, near and far."

The belief in cooperative economic management also drew inspiration from the government activism of Roosevelt's New Deal. The postwar Western system was organized at a high tide of optimism about the capability of experts, economic and technical knowledge, and government intervention. The rise of Keynesian economics in Europe in the 1930s had begun to encourage an activist role for the state in the economy and society. International economic governance was a natural and inevitable extension of the policies being tried in individual Western industrial societies.

Economic openness plus joint governance equals Western solidarity.

A third principle of liberal democratic order held that the rules and institutions of the Western world economy must be organized to support domestic economic stability and social security. This new commitment was foreshadowed in the Atlantic Charter's call for postwar international collaboration to ensure employment stability and social welfare. It was a sign of the times that Churchill, a conservative Tory, could promise a historic expansion of the government's responsibility for the people's well-being. In their schemes for postwar economic order, both Britain and the United States sought a system that would aid and protect their nascent social and economic commitments. They wanted an open world economy, but one congenial to the emerging welfare state as well as business.

The discovery of a middle way between old political alternatives was a major innovation of the postwar Western economic order. British and American planners began their discussion in 1942 deadlocked, Britain's desire for full employment and economic stabilization after the war running up against the American desire for free trade. The breakthrough came in 1944 with the Bretton Woods agreements on monetary order, which secured a more or less open system of trade and payments while providing safeguards for domestic economic stability through the International Monetary Fund. The settlement was a synthesis that could attract a new coalition of conservative free traders and the liberal prophets of economic planning.

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A final element of the liberal democratic system might be termed "constitutionalism"—meaning simply that the Western nations would make systematic efforts to anchor their joint commitments in principled and binding institutional mechanisms. In fact, this may be the order's most basic aspect, encompassing the other principles and policies and giving the whole its distinctive domestic character. Governments might ordinarily seek to keep their options open, cooperating with other states but retaining the possibility of disengagement. The United States and the other Western nations after the war did exactly the opposite. They built long-term economic, political, and security commitments that were difficult to retract, and locked in the relationships, to the extent that sovereign states can. Insofar as the participating governments attempted to construct a political order based on commonly embraced norms and principles along with institutional mechanisms for resolving conflicts and reaching specific agreements, they practiced constitutionalism.

Democracies are particularly capable of making constitutional commitments to each other. For self-regarding states to agree to pursue their interests within binding institutions, they must perceive in their partners a credible sense of commitment—an assurance that they will not exit at the least sign of disagreement. Because policymaking in democracies tends to be decentralized and open, the character of commitments can be more clearly determined and there are opportunities to lobby policymakers in the other democracies. Democracies do not just sign agreements; they create political processes that reduce uncertainty and build confidence in mutual commitments.

A CONSTITUTION FOR THE WEST

THE CONSTITUTIONAL political order was constructed in the West around economic, political, and security institutions. In the economic realm, the Bretton Woods accords were the first permanent international arrangements for cooperation between states. Rules and institutions were proposed to ensure a stable and expansionary world economy and an orderly exchange rate system. Many of the original agreements for a rule-based monetary order gave way to ad hoc arrangements based more on the American dollar, but the vision of jointly

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managed, multilateral order remained. The organization of postwar trade relations also had an uncertain start, but ultimately an elaborate system of rules and obligations was developed, with quasi-judicial procedures for adjudicating disputes. In effect, the Western governments created an array of transnational political arenas organized by function. The postwar years were filled with economic disputes, but they were largely contained within these arenas.

The constitutional vision informed the creation of the United Nations, which combined political, economic, and security aspirations. To be sure, the U.N. system preserved the sovereign rights of member states. Intent on avoiding the failures of the League of Nations, the architects of the new international body drafted a charter under which the great powers would retain their freedom of action. But despite its weak rules and obligations, the United Nations reflected American and European desires to insure against a relapse of American isolation, to establish principles and mechanisms of conflict resolution, and to mute conflicts between states within a semi-institutionalized political process.

Cold War security structures provided additional constitutional architecture. Lord Ismay's observation that NATO was created to keep the Russians out, the Germans down, and the Americans in encapsulates the alliance's importance in locking in long-term commitments and expectations. The American-Japanese security pact had a similar dual-containment character. These institutions not only served as alliances in the ordinary sense of organized efforts to balance external threats, but offered mechanisms and venues for building relations, conducting business, and regulating conflict. The recent French decision to rejoin NATO can be understood only in this light. If NATO were simply a balancing alliance, the organization would be in an advanced stage of decay. It is NATO's broader political function—binding the democracies together and reinforcing political community—that explains its remarkable durability.

The democratic character of the United States and its partners facilitated construction of these dense interstate connections. The decentralized and open character of domestic institutions encouraged political give-and-take across the advanced industrial world. Thus the Western liberal democratic order was not only defined by a set

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of institutions and agreements but made for a particular kind of politics—transnational, pluralistic, reciprocal, legitimate.

The constitutional features of the Western order have been especially important for Germany and Japan. Both countries were reintegrated into the advanced industrial world as semisovereign powers that had accepted unprecedented constitutional limits on their military capacity and independence. As such, they became unusually reliant on Western regional and multilateral economic and security institutions. The Western order in which they were embedded was integral to their stability and their very functioning. The Christian Democratic politician Walther Leisler Kiep argued in 1972 that "the German-American alliance ... is not merely one aspect of modern German history, but a decisive element as a result of its preeminent place in our politics. In effect, it provides a second constitution for our country." Western economic and security institutions were and are for Germany and Japan a political bulwark that provides stability and transcends those institutions' more immediate purposes.

The liberal democratic order is now extending its reach worldwide.

WHAT ENDURES

FOR THOSE who thought cooperation among the advanced industrial democracies was driven primarily by Cold War threats, the last few years must appear puzzling. Relations between the major Western countries have not broken down. Germany has not rearmed, nor has Japan. What the Cold War focus misses is an appreciation of the other, less heralded, postwar American project—the building of a liberal order in the West. Archaeologists remove one stratum only to discover an older one beneath; the end of the Cold War allows us to see a deeper and more enduring layer of the postwar political order that was largely obscured by the more dramatic struggles between East and West.

Fifty years after its founding, the Western liberal democratic world is robust, and its principles and policies remain the core of world order. The challenges to liberal multilateralism both from within and from outside the West have mainly disappeared. Although

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regional experiments abound, they are fundamentally different from the autarkic blocs of the 1930s. The forces of business and financial integration are moving the globe inexorably toward a more tightly interconnected system that ignores regional as well as national borders. Recent proposals for an Atlantic free trade agreement and a Transatlantic Treaty, whatever their economic merits, reflect the trend toward increased integration across regions. The successful conclusion of the Uruguay Round of international trade talks in 1994 and the launching of the World Trade Organization on January 1, 1995, testify to the vigor of liberal multilateral principles.

Some aspects of the vision of the 1940s have faded. The optimism about government activism and economic management that animated the New Deal and Keynesianism has been considerably tempered. Likewise, the rule-based, quasi-judicial functions of liberal multilateralism have eroded, particularly in monetary relations. Paradoxically, although the rules of cooperation have become less coherent, cooperation itself has increased. Formal rules governing the Western world economy have gradually been replaced by a convergence of thinking on economic policy. The consensus on the broad outlines of desirable domestic and international economic policies has both reflected and promoted increased economic growth and the incorporation of emerging economies into the system.

The problems the liberal democratic order confronts are mostly problems of success, foremost among them the need to integrate the newly developing and post-communist countries. Here one sees most clearly that the post–Cold War order is really a continuation and extension of the Western order forged during and after World War II. The difference is its increasingly global reach. The world has seen an explosion in the desire of countries and peoples to move toward democracy and capitalism. When the history of the late twentieth century is written, it will be the struggle for more open and democratic polities throughout the world that will mark the era, rather than the failure of communism.

Other challenges to the system are boiling up in its leading states. In its early years, rapid and widely shared economic growth buoyed the system, as working- and middle-class citizens across the advanced industrial world rode the crest of the boom. Today economic globalization is producing much greater inequality between the winners and

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the losers, the wealthy and the poor. How the subsequent dislocations, dashed expectations, and political grievances are dealt with—whether the benefits are shared and the system as a whole is seen as socially just—will affect the stability of the liberal world order more than regional conflict, however tragic, in places like the Balkans.

To be sure, the Cold War reinforced solidarity and a sense of common identity among the liberal democracies, so it would be a mistake to take these binding forces for granted now. Trade disputes, controversies over burden-sharing, and regional conflict will test the durability of the liberal order. Without a Cold War threat to unite their countries, leaders in the advanced democracies will have to work harder to manage the inevitable conflicts and fissures. An agenda of reform and renewal would be an intelligent move to protect 50 years of investment in stable and thriving relations. Policies, institutions, and political symbols can all be directed at reinforcing liberal order, just as they are in individual liberal polities. At the very least, Western leaders could spend much more time acknowledging and celebrating the political space they share.

It is fashionable to say that the United States after the Cold War faces its third try at forging a durable world order, at reinventing the basic rules of world politics, just as after both world wars. But this view is more rhetorically compelling than historically valid. The end of the Cold War was less the end of a world order than the collapse of the communist world into an expanding Western order. If that order is to be defended and strengthened, its historical roots and accomplishments must be reclaimed. The United States built and then managed the containment order for 40 years, but it also built and continues to enjoy the rewards of an older liberal democratic order. America is not adrift in uncharted seas. It is at the center of a world of its own making.

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Reviving the West

Charles A. Kupchan

FOR AN ATLANTIC UNION

THE WEST has cause to rejoice as this century draws to a close. The fundamental ideological and geopolitical cleavages of past decades are no more. Democracy and capitalism have triumphed over fascism and communism, and this era's three revanchist powers—Germany, Japan, and Russia—are quiescent. Regional disputes that festered for years, such as those in Northern Ireland and the Middle East, are moving toward resolution. And the world economy is growing more liberal and vibrant as old markets expand and new ones come on line.

But the West is not celebrating. Without the Cold War to induce unity, politics among and within the liberal democracies are fragmented and disoriented. In the Bosnian conflict, the West remained paralyzed until the United States wrested control of the diplomatic process. Voters across Western Europe and North America are in a foul temper, profoundly weakening their governments. Politicians and analysts alike bemoan the West's identity crisis and the breakdown of civic democracy; last September even President Bill Clinton admitted that America had descended into a "funk."

To reverse this trend and breathe new life into the established democracies of the West, its leaders are seeking to broaden and deepen the collaborative institutions that served the Atlantic community so well during the Cold War. The European Union (EU) is persisting in its quest for a federal Europe while at the same time opening its doors

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to the continent's new democracies. The borders of NATO are expected gradually to stretch eastward, ensuring America's engagement in Europe and defending an enlarged democratic community.

Despite their good intentions, these leaders have embarked on a course that will lead to the demise, not the renewal, of the West. They are trying to broaden the community of peaceful, democratic nations even as they deepen it. But if enlargement is to be both politically feasible and strategically desirable, they must first loosen the West's structures. Were the Soviet Union still around to fuel integration, a federal EU might make sense, but plans for monetary union, a common foreign and security policy, and centralized governance of Europe are Cold War legacies that will founder as states resist further attempts to whittle away their sovereignty. Worse still, the futile push toward federalism will distract the EU from its most urgent mission: enlargement to the east. Meanwhile, NATO is misdirecting its energies into a heated debate over when and how to admit new members from Central Europe, failing to recognize that the problem lies in the very nature of the alliance, not its membership. NATO's formality and the rigor of its territorial guarantees are no longer necessary or politically sustainable.

Unless the EU and NATO undertake fundamental reform, they risk coming apart just as they draw within reach of their historic mission to unite Europe under the banner of democracy and peace. The excessive ambition of the current policies will undermine the transatlantic community as member states attempt to escape unwanted responsibilities. To preserve and enlarge the West, leaders must scale back their vision and match institutional commitments to political realities.

The solution to the West's troubles is an Atlantic Union (AU) that would subsume both organizations. The EU would abandon its federal aspirations and concentrate on the extension of its single market east to Central Europe and west to North America. NATO would become the new group's defense arm, but its binding commitments to the collective defense of state borders would give way to more relaxed commitments to uphold collective security through peace enforcement, peacekeeping, and preventive diplomacy. The AU could then open its doors to the new democracies of Central Europe in a manner acceptable to both Russia and the commitment-weary electorates of the current NATO countries. Once democracy takes root in Russia

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and the other states of the former Soviet Union, the AU would include them in its security structures and single market. A looser but more comprehensive transatlantic union would ensure that the bridge between North America and an enlarged Europe rests on solid economic and political trestles, not just increasingly weak strategic ones.

An AU would sacrifice depth for breadth, but it would lock in, and eventually extend, perhaps the most profound transformation of this century: the creation of a community of democratic nation-states among which war is unthinkable. The Western democracies have built much more than an alliance of convenience among countries each out for individual gain. They enjoy unprecedented levels of trust and reciprocity and share a political order based on capitalist economies and liberal societies.[1] The consolidation and expansion of this democratic core holds the greatest promise for a stable peace in the Atlantic region and beyond, and it is a sensible and prudent starting point as the United States casts about for a new grand strategy.

BYE-BYE MAASTRICHT

DEEPER EUROPEAN integration has lost not only its popular appeal, but its strategic purpose. A Europe-only single market, even if good for its member states in the short run, will likely harm the global economy. Although the North American Free Trade Agreement and the Asia-Pacific Economic Cooperation forum also aim to promote regional integration, they differ from the EU in one crucial respect: the United States links the two regions through its membership in APEC and its participation in NAFTA. As trade within North America and among the Pacific Rim countries increases and becomes more liberal, so will trade between the two regions. In contrast, if the EU forges ahead with a single market, single currency, and central bank, it jeopardizes Europe's integration into the global economy. The enlargement of the union would make this drift all the more likely as the influx of goods from Central Europe threatened producers in Western Europe, generating new pressures for protection from non-EU imports.

[1]See Daniel Deudney and G. John Ikenberry, "The Logic of the West," *World Policy Journal*, Winter 1993/94, pp. 17-25.

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That the current plans for a deeper Europe are unraveling is, therefore, not all bad. Meeting the 1992 Maastricht Treaty's economic criteria for monetary union—particularly the requirement that each nation maintain a budget deficit not greater than three percent of GDP—before the end of the century is becoming increasingly unrealistic for key EU members, including France and Germany. President Jacques Chirac has committed France to increased monetary and fiscal discipline, but his vow to reduce unemployment and bolster stagnant wages will likely take precedence, especially after the paralyzing strikes of late 1995. Even in Germany, the engine behind integration, the budget deficit may remain above the Maastricht ceiling. Moreover, less than 40 percent of the German electorate favors currency union, largely because the deutsche mark remains a powerful symbol of national identity.

Maastricht's plan for a more integrated Europe will be more a mantra than a map.

Even if France and Germany somehow clear Maastricht's hurdles, the costs of formally dividing the EU into the haves and the have-nots outweigh the gains. Proponents argue that monetary union will guarantee the integrity of the Paris-Bonn axis. But France and Germany are mature democracies, and their relationship is just fine despite separate currencies. Monetary union may even lead to new strains as the austerity measures it requires dampen sorely needed economic growth. As for the rest of Europe, a multitiered EU will create new fault lines and undermine the member states' sense of common destiny. Wealthier EU members will not bring along their poorer neighbors as they did in the past. The pie for aid is shrinking even as claims on it promise to balloon. Germany, for one, is unlikely to continue chipping in almost one-third of the EU budget as it absorbs the costs of reunification, seeks to remain competitive in the global economy, and accommodates an aging population. Despite the talk of concentric circles and widening cores, monetary union promises to leave Europe's poorer periphery just where it is.

Political integration has lagged considerably behind progress on the economic front, ensuring that the Maastricht agenda will be more a mantra than a map. Europeans are not, and may never be, ready to move from a fundamentally intergovernmental union to one that smacks of federalism. The hallmark of a federal system is a legitimate,

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representative political arena that operates above individual states. The European Parliament, however, is still without real legislative authority and remains a forum for speechmaking, not decision-making. The European Commission continues to churn out proposals for greater political integration, but most have to be approved at the national level. Opinion polls reveal that Europeans are at best ambivalent about further encroachments on national sovereignty, with less than half supporting a single currency.

The Maastricht Treaty envisioned a common foreign and security policy, but the outlook is bleak. The Western European Union (WEU), the Europe-only defense organization that has effectively lain dormant since its inception in 1948, is supposed to develop the capability to operate independently of NATO and intends ultimately to extend collective defense guarantees to states that have recently joined the EU or expect to in the future. But absent a unifying Soviet threat, the security interests of European states are drifting apart, not coming together. The failure of Europe's security institutions to take effective and timely steps to stop the slaughter in Bosnia made clear that the continent's security is now divisible. Which EU members, for example, would today defend the Finnish border against a Russian attack, a task to which all should be committed in principle since Finland entered the EU last year?

The EU's plans for simultaneous widening make these obstacles only more formidable. Integrating the economies of the new democracies into the EU would bloat the organization's budget and pit Central and Southern Europe against each other in a competition for regional development funds. Because of Central Europe's sizable farming sector, the eastward enlargement of the union would, thanks to the Common Agricultural Policy's price supports and export subsidies, burden the EU with enormous outlays. Swelling the EU to twice its present membership would also, by complicating decision-making, put an end to Maastricht's already unrealistic political agenda. A common foreign and security policy that would reconcile the interests of some 30 states, for example, would be out of the question.

By so overreaching, the EU risks two missteps of geopolitical consequence. Its pursuit of a federal Europe will come at the expense of the far more important task of eastward expansion. The tighter the internal structures, the higher the hurdles for entry. The more energy

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and resources expended in deepening, the less left over for widening. Enlargement would require reform of the EU's cumbersome decision-making procedures, expensive agricultural subsidies, and regional development program. But delaying the inclusion of the new democracies in Europe's markets and councils while the EU pursues an illusory dream of federalism would miss a historic opportunity to widen the continent's zone of democracy and peace. States undergoing transition to democracy are particularly prone to instability and conflict, and the allure of acceptance into the West would provide East European leaders with a powerful incentive to keep political and economic reform on track. Though less urgent, the westward expansion of the single market to include North America would serve as a bulwark against Europe's drift from the global economy.

The EU's unrealistic objectives could also jeopardize Western Europe's significant progress toward an integrated community of democracies. Trying to do more risks overburdening institutions and triggering a backlash among nation-states bristling at what electorates will view as unjustified and unwanted infringements on national sovereignty. If it continues to cling to a vision its member states will summarily reject, the organization will suffer irreparable damage. The EU should consolidate its achievements rather than gamble for more and risk Europe's undoing in the process.

THE LIMITS OF NATO

CURRENT SCHEMES for NATO enlargement are equally fanciful and dangerous. Because NATO is a traditional military alliance—a concentration of power against a common external threat—its extension would impel Russia to marshal a countervailing coalition. NATO enlargement would resurrect, not erase, the dividing line between Europe's east and west. It would also erode NATO from within as current members balked at assuming new responsibilities in the face of shrinking strategic threats. As for the argument that NATO assures American engagement in Europe, the declining importance of defense policy means that if the transatlantic partnership is to remain intact, America's primary institutional tie to Europe cannot be merely an outmoded military alliance.

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NATO must take the lead in consolidating a democratic peace in Central Europe and incorporating the region into a meaningful security structure. But this initiative need not and should not entail its eastward expansion as a Cold War military alliance. The formal extension of the mutual defense provisions of Article V of the 1949 North Atlantic Treaty would irk Russia and leave in limbo those states to the east of NATO's new boundary. An America that is increasingly turning inward will also take exception to the formality and potential cost of extending NATO's territorial guarantees to the new democracies of Central Europe.

The risks of enlarging NATO as a traditional military alliance might be justified were a major external threat to the Central European states to arise. But Russia is neither interested in nor capable of mounting such a threat. Moscow does not protest NATO's increasing engagement with Europe's east. It has joined NATO's Partnership for Peace—the 1994 initiative that promoted military cooperation with the former Warsaw Pact nations but stopped short of offering them formal membership—watched passively as NATO troops conducted exercises with local forces in Poland and the Czech Republic, sent its troops to the United States to train with American forces, and agreed to put its soldiers under NATO command in all but name to enforce the Dayton accord in Bosnia. But Russia justifiably objects to the formal enlargement of a Western military bloc from which it would be excluded.

Electorates in the NATO countries are happy to see their militaries collaborate with former adversaries. However, in light of the rancorous debate that followed President Clinton's decision to send U.S. troops to Bosnia, the American people and their representatives are not likely to respond favorably when asked to extend ironclad defense guarantees to countries they could not locate on a map. If it stakes its future on moving east, only to have its plans shot down by the public, NATO would be dealt a crippling blow.

LOCKING IN THE DEMOCRATIC PEACE

AMERICA BELONGS in Europe, and Central Europe belongs in the West. But if Western leaders are to achieve these aims, they must first strike a balance between an institutional structure that demands too

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much and falls prey to overextension and one that delivers too little and atrophies from irrelevance. They must also make sure that strategic matters are no longer divorced from economic considerations. The strategic link between America and Europe will wither if it is not embedded in a broader political and economic framework.

An Atlantic Union that would incorporate the EU, the WEU, and NATO fulfills these criteria. The initial members of the AU would be the current members of these three organizations. The AU would then expand at a steady pace not just to Central Europe, but also to Russia and the other states of the former Soviet Union. The infrastructure of the EU and NATO would serve as a ready foundation for the AU. States joining the AU would take on three basic commitments: to introduce a single market, to uphold collective security, and to expand political engagement at the transnational level.

Calls for the negotiation of a free trade area encompassing North America and Western Europe have already surfaced on both sides of the Atlantic. Part of the impetus comes from economic prospects; the removal of today's barriers would, by 2000, increase transatlantic trade by at least 20 percent.[2] The introduction of a single market would likely be accompanied by an investment protocol and more convergence on regulations and standards, increasing the flow of capital and prompting industrial restructuring in Europe and North America. It would also prevent both areas from drifting toward protectionism and emerging as regional trade blocs. The United States would then serve as the pivot of an integrated global economy, connecting the transatlantic free trade zone with that of the Pacific Rim.

The most potent appeal of the Atlantic Union's single market is, however, its political significance. The conclusion of the Uruguay Round of negotiations of the General Agreement on Tariffs and Trade reduced trade barriers in most sectors to minimum levels, and the EU and the United States agreed at their summit in Madrid last November to pursue a host of follow-up measures. The elimination of all impediments would threaten powerful sectors such as agricul-

[2]Clyde V. Prestowitz, Jr., Lawrence Chimerine, and Andrew Szamosszegi, "The Case for a Transatlantic Free Trade Zone," in *Open for Business: Creating a Transatlantic Marketplace*, ed. Bruce Stokes, New York: Council on Foreign Relations Press, 1996, p. 22.

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ture and textiles and thus would call for heavy lifting. But just as the introduction of a single market in Europe made borders more porous, facilitated political integration, and promoted a sense of common identity, so would the creation of a single Atlantic market strengthen the underpinnings of the community of North American and European democracies. Winning congressional approval of a transatlantic free trade zone would not be easy, but a high-profile debate that connected America's prosperity to Europe's fate would drive home to Americans that they share a unique political space with Europeans.

The West must seize this historic opportunity to widen the zone of democracy and peace.

The Atlantic Union's commitments to collective security would be looser and less automatic than NATO's assurances, removing the key stumbling block to a broader Western security community. The organization would replace NATO's emphasis on collective territorial defense with a focus on peacekeeping and peace enforcement; confronting external threats as well as those that might arise from within, it would coordinate multilateral operations across Europe. Members would affirm their intention to solve conflicts peacefully whenever possible and, when necessary, to use military force to defend against common threats. Case-by-case decision-making and a broad mandate to preserve peace in the Atlantic area would be the organizing principles of a new U.S.-European security bargain and a revamped NATO. The elimination of NATO's Article V guarantee would weaken the alliance's deterrent power, but as long as Russia continues to pose no danger to Central or Western Europe, the tradeoff makes sense.

Under the guise of the AU, a transformed NATO could soon take in the new democracies of Central Europe without appearing anti-Russian. Limited collective security commitments would provide Central Europeans with some, but not all, of the assurance they seek. American troops would stay in Europe. NATO's existing infrastructure would be preserved. Militaries in the new democracies would continue the planning and exercising already begun through the Partnership for Peace, furthering their integration into the Western security community and their ability to cooperate with the forces of current NATO members. But this steady integration would occur qui-

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etly, avoiding the political histrionics that would make the admission of new members to today's NATO so problematic. To be sure, the new arrangements would involve a sleight of hand. Central Europe, via AU membership, would secure a place under the West's protective umbrella. But couching new commitments in a broader political context and making them contingent on strategic circumstances and less formal would render Central Europe's early inclusion in the West far more palatable to Russia as well as to electorates in the NATO countries. Central European states would get to join the club, even if that club proves to be less exclusive and selective than the new entrants would like.

Merging NATO and the EU also permits a broader definition of Europe's boundaries. Because NATO is still a formal military alliance, only countries deemed of sufficient strategic value will ultimately be eligible for membership. Therefore, some argue that NATO expansion should not extend beyond Poland and the Czech Republic, the two countries that occupy the main corridor between Russia and Western Europe. But this approach would leave much of Central Europe out in the cold. In contrast, states would join the AU as they demonstrate a commitment to democracy, markets, and international norms of behavior, offering the prospect of inclusion to all of Central Europe as well as the former Soviet Union. A pan-European collective security system could become a reality, not just rhetoric to placate Russia as Poland enters a NATO everyone knows will never go farther east. At the same time, should Russian democracy falter, the AU's military infrastructure could serve as the foundation for a new, enlarged anti-Russian alliance.

Finally, merging NATO with the EU and the WEU avoids a looming crisis over the responsibilities of these institutions. The three already have incongruent memberships that will grow only more inconsistent should they pursue their respective enlargement plans. If, as in the most likely scenario, the EU and the WEU incorporate ten or more Central European countries while NATO stops after accepting only three or four, the United States and its main European partners would no longer share parallel strategic commitments on the continent. The AU, on the other hand, would keep American and European commitments in step, preserving the sense of common purpose that undergirds the Atlantic community.

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Regardless of how far east the AU ultimately reaches, its major powers should form a directorate that will prevent the body from becoming unwieldy. A small, flexible forum in which the major powers could forge a consensus, this directorate would guide the AU on both military and economic matters. The absence of a formal mechanism for great power leadership has prevented the Organization for Security and Cooperation in Europe from fulfilling its potential. Moreover, an informal concert of major states already calls the shots on the continent. The Contact Group formed to seek a settlement in Bosnia comprised the United States, Germany, France, Britain, and Russia. In practice, both NATO and the EU function through the fashioning of agreement among their leading members. A major power directorate at the core of the AU would only formalize present realities, while making possible effective decision-making and timely collective action.

An Atlantic Union could make pan-European collective security a reality.

The final pillar of an Atlantic Union is deepened civic engagement on the transnational level. Civic society among nation-states emerges from political participation and community association, just as it does within nation-states. If the Atlantic community is to survive and prosper, its citizens must share a sense of belonging not only to their national states, but also to a transnational political space that the Western democracies inhabit. The legitimacy that the institutions of the EU enjoy in member states, for instance, is not just a function of the services they provide. It is also a reflection of the degree to which Europe has come to compete with the nation-state as a defining element of individual identity and allegiance.

The Cold War bequeathed to the West a rich network of public institutions and associations as well as private enterprises and groups that transcend national boundaries. Thickening this network so that it becomes the enduring social and political fabric of an Atlantic Union entails several tasks. The European Parliament should be enlarged into an Atlantic Parliament and charged with providing legislative oversight of the union. National parliaments would retain the lion's share of legislative authority, but handing a substantive portfolio of responsibilities to a transatlantic parliament would nurture a

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Western political identity that would complement national loyalties. The Atlantic Parliament's duties would include designing the AU's budget, aligning American and European social policies, and developing union-wide laws and regulations.

Public and private groups should encourage the flowering of the many forms of transatlantic association—business contacts, religious and cultural activities, social causes, and leisure activities. These associations will intensify citizens' engagement in and identification with a transatlantic polity. Educational and vocational exchanges and scientific and industrial cooperation should also be promoted. Finally, Western governments should launch ambitious education campaigns to inform their electorates of the importance of public engagement in preserving and widening the transatlantic community. The West is unraveling in part because it lacks the defining images and projects that galvanize domestic polities. Constructing an Atlantic Union of democracies will not call up the same sense of collective commitment and sacrifice as the struggle against communism. Yet it need not. Bold leadership in laying out a vision of a peaceful, prosperous union of Atlantic democracies and proceeding with the necessary institutional innovations will suffice to wean citizens away from domestic preoccupations and inspire them to construct a new West.

A CONSERVATIVE REVOLUTION

TO MAKE the renovation of the West a priority of U.S. foreign policy is not to demote other regions or indicate that the Western democracies should prepare to do battle against them. On the contrary, consolidating the transformation of the Atlantic area into a zone of peace will free the Western powers to address challenges and promote stability elsewhere. As they work to build an Atlantic Union, the United States and the EU members should endeavor to augment cooperation with powers outside the Atlantic area. Although its results were less substantive than symbolic, the EU-Asia summit in Bangkok earlier this year was an important step in the right direction. As long as the Western powers make clear that their partnership will not come at the expense of their relations with others, a strong Atlantic coalition will lead to greater cooperation with other areas.

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While strengthening its ties to other regions, the AU should also foster regional integration elsewhere. Linked by global trade and coordination among the great powers, regional unions along the AU model in Asia and Africa could eventually consolidate new zones of peace and provide the foundation for a more stable international order. The main reason for not inviting Japan, one of Asia's most democratic and prosperous nations, to join the AU is that a focus on the Atlantic community would distract Japan from facilitating further integration in its own neighborhood. The AU is the first step toward the creation of a global concert of democratic great powers that would coordinate relations among and within regional organizations.

The AU would also serve as the driving force behind the liberalization of global trade. Through successive accessions to NAFTA, a transatlantic free trade zone would gradually extend throughout Central and South America. Because the EU is already looking south as well as east, an Atlantic single market might eventually include the Middle East and North Africa. Fearful of being excluded from the AU's widening trade zone, other areas would feel pressure to open their markets in return for access. The geoeconomic move toward globalization would balance the geopolitical move toward regionalization.

Constructing an Atlantic Union is a conservative enterprise. Plans that call for further sacrifices and increased responsibilities, like monetary union and NATO expansion, have little public appeal in this era of waning internationalism. A more modest set of objectives is needed to fashion a new consensus. Rather than deepen existing institutions, the AU would merely extend their reach, reasonably asking electorates on both sides of the Atlantic to form a single market, uphold collective security, and send representatives to a common parliament. By solidifying a transatlantic community of peace, an Atlantic Union would do much more for the West and the rest of the world than monetary union for Germany, France, and Luxembourg or tank traps on the Poland-Belarus border. If the AU successfully consolidates the democratic peace, what appears mundane today will, in the longer course of history, prove revolutionary.

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Globalizing Free Trade

C. Fred Bergsten

THE ASCENT OF REGIONALISM

ECONOMIC SUCCESS in today's world requires countries to liberalize to attract mobile international investment, which goes far to determine the distribution of global production, jobs, profits, and technology. Success also requires countries to compete effectively in international markets rather than simply at home. A process of competitive liberalization, therefore, has driven the trend toward free trade among a myriad of countries in all parts of the world with very different economic systems, at very different stages of development, and with very different prior philosophies.

Interstate arrangements are usually necessary to implement such liberalization, however, because domestic political opposition frequently blocks countries from abolishing their traditional barriers unilaterally. Entrenched interests fight hard, and often with prolonged success, to maintain their protected positions. Trade reform thus requires mobilizing enough pro-trade interests, especially exporters and others who would gain directly from the opening of markets abroad, to overcome those who resist further market opening. The political economy of trade liberalization in individual countries rests heavily on parallel liberalization in partner countries.

The most assured technique for achieving such parallel action is to insist on reciprocity, through the negotiation of trade agreements with enough existing or potential markets to tip the internal balance

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in favor of the desired liberalization. In seeking reciprocal liberalization, countries could turn either to their respective geographical regions or to the world trading system as a whole. The global approach is superior because it maximizes the number of foreign markets involved and avoids the economic distortions (and political risks) of discrimination among trading partners.

As the urgency of competitive liberalization has accelerated, however, the regional approach has increasingly come to the fore. It is considerably less complicated to work out mutually agreeable arrangements with a few neighbors than with the full membership of the well over 100 countries in the World Trade Organization (WTO). Moreover, regional groupings are demonstrably willing to proceed more boldly: many of them have decided to adopt totally free trade, whereas none of the global conclaves to date has even considered such an ambitious goal.

Regional Free Trade Arrangements Share of World Trade, 1994

EU	22.8
EUROMED	2.3
NAFTA	7.9
MERCOSUR	0.3
FTAA	2.6*
AFTA	1.3
AUSTRALIA-NEW ZEALAND	0.1
APEC	23.7*
TOTAL	61.0

**Excluding subregionals*

The desire to overcome traditional political rivalries has also driven several regional economic arrangements. The cardinal goal of the European Union (EU) was to end the historical hostility between France and Germany. Mercosur sought to end the arms race between Argentina and Brazil, including its nuclear dimension. A successful Asia-Pacific Economic Cooperation (APEC) forum would reduce the risk of intra-Asian and trans-Pacific conflicts, which have been so prevalent over the past century—including three wars for the United States.

As a result, about 60 percent of world trade now takes place within free trade agreements or among countries that have decided to achieve free trade by a certain date. The EU has completed its "single internal market" and in 1995 agreed with 12 Mediterranean countries (Euromed) to establish free trade by 2010. The 18 countries of APEC—including the United States, Japan, and China—have committed themselves to "free trade and investment in the region" by 2010 for

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the higher-income members that make up 85 percent of their trade and by 2020 for the rest. The 34 democracies of the western hemisphere will devise a Free Trade Area of the Americas (FTAA) by 2005, building on the existing North American Free Trade Agreement (NAFTA). A number of smaller arrangements, including the ASEAN Free Trade Area (AFTA) and Mercosur (Argentina, Brazil, Paraguay, Uruguay) in Latin America, augment these totals.

THREATS TO THE TRADING SYSTEM

REGIONAL AND global liberalization initiatives have been mutually reinforcing since the European Common Market was created in the late 1950s. The fears of some observers that regionalism would derail globalism have been overcome to date. But determined leadership has been required to avoid conflicts between the two, like those that have appeared in earlier historical periods with devastating security as well as economic impact. Avoidance of conflict has required the maintenance of effective global trade rules that both define the regional arrangements and govern relations between them, as well as an institution to enforce those rules.

Even so, there have been some close calls—especially when the global system faltered. The major new regional arrangements, particularly NAFTA and APEC, were spawned in part by missed deadlines of the Uruguay Round of GATT and were intended to serve as alternatives to the global regime if needed. An ultimate failure of the round, as nearly occurred, would have discredited the entire global system and raised the specter of competing blocs. By joining East Asia and North America, APEC has eliminated any possibility of the three-bloc world that was so widely feared a few years ago, but a two-bloc world that would convey substantial dangers could still be created instead if APEC and Europe fail to work out satisfactory accommodation.

Moreover, the EU frequently seems to focus so heavily on its regional agenda that it forgets its global responsibilities. The United States is often viewed as preoccupied with NAFTA or APEC—or as turning protectionist more generally, a fear heightened by the early successes of Pat Buchanan in this year's Republican primaries. A subtle threat to the global trading system is posed by the recently suggested Transat-

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lantic Free Trade Area (TAFTA) idea for North America and Europe, which implies that free trade is acceptable as long as it takes place among countries at roughly equal (that is, high) income levels and would have the rich (and white) countries combine to erect new discrimination against the poor (and a few rich Asians).

The "bicycle theory" teaches that failure to move forward toward free trade causes a fall.

The Asian giants, Japan and China, also pose major threats to the continued openness of the trading system. The political economy of liberalization can win domestic support, even in a country as large as the United States, only when its major foreign markets (especially if they are also its toughest competitors) are seen as contributing their fair share to the process. Japan has grudgingly participated in all the GATT rounds, but access to its markets remains extremely truncated.[1] China has not yet committed even to the minimum reforms necessary to join the WTO.

The history of trade policy teaches forcefully that failure to move steadily forward toward liberalization condemns the trading system to tip over or fall backward in the face of protectionist pressures—the "bicycle theory." For example, protectionism scored major successes during the prolonged periods when the GATT went into hibernation in the late 1960s immediately after the successful conclusion of the Kennedy Round and in the early 1980s after the Tokyo Round. Renewed financial crises à la Mexico could, as in the past, produce a wholesale adoption of new import controls.

One of the great advantages of the contemporary regional initiatives is that they have kept the bicycle moving after the conclusion of the Uruguay Round. The round itself helped as well by scheduling future negotiations in a number of sectors, some of which are already under way. But there are strong pressures throughout the world that would seize on any stalling of the forward momentum and try to reverse the trend toward liberalization. Buchanan's success was partly due to the inadequacy of such momentum in 1996.

[1]Yoko Sazanami, Shujiro Urata, and Hiroki Kawai in *Measuring the Costs of Protection in Japan*, Washington: Institute for International Economics, 1995, conclude that the consumer costs of these barriers total at least three to four percent of Japan's GDP and block at least $50 billion in imports annually.

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GAINS FROM GLOBAL LIBERALIZATION

IN ADDITION, there are enormous opportunities for further economic gain in eliminating remaining tariff and nontariff border barriers. The Uruguay Round teed up these remnants of traditional protection for decisive action by converting all agricultural quotas into tariffs, phasing out quota protection for textiles and apparel, and binding most tariffs of developing countries. One last big push could condemn these practices to the dustbin of history.[2]

Even more important, new negotiations are needed to enable the global system to catch up with some of the "new problems" that are plaguing international trade relations. Protectionists in all countries are ingenious at staying one step ahead of the judge, and the system needs continuous updating to keep these forces at bay. The goal should be to make all markets contestable with policies on investment, antitrust, and overall regulation as well as trade that open economies fully to global competition.[3]

For example, most complaints about Japan no longer relate to that country's border barriers. They focus instead on the anticompetitive behavior of its firms, with their exclusive supplier or distributor arrangements (vertical *keiretsu* as in auto parts and film, respectively) and domination of particular markets (cartels, as in glass). The United States has been using trade measures, such as Section 301 of the U.S. trade law, to address non-trade problems. There is an urgent need to work out new international agreements on competition policy and corporate behavior.

Investment is a second area in which the international rules have lagged far behind commercial practice. Investment is now an essential element of international trade, especially in services but in traditional manufacturing as well. A few modest covenants on trade-related investment measures and services-related investment were agreed upon in the Uruguay Round. But the major efforts have come in regional groupings, including NAFTA and APEC, and the current discussions

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[2]This case is made persuasively by John Whalley in *The Trading System after the Uruguay Round*, Washington: Institute for International Economics, 1996.

[3]This key concept is elaborated in Geza Feketekuty, "The Scope, Implication, and Economic Rationale of a Competition-Oriented Approach to Future Multilateral Trade Negotiations," forthcoming.

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among the Organization for Economic Cooperation and Development nations of a Multilateral Agreement on Investment exclude the countries that are growing fastest and maintain the most impediments.

Another pending issue is regionalism itself. The GATT article that governs regional arrangements is extremely weak, and its implementation has been even weaker: the GATT has been notified of more than 100 "free trade agreements" but none have been rejected and only two have been approved. Now that regionalism is so prevalent, the WTO needs to adopt much stronger provisions and procedures to make sure that regional arrangements evolve in an open manner.

A number of other topics must be addressed as well. The numerous linkages between environmental measures and trade need to be sorted out in ways that both protect the environment and avoid providing new excuses for protecting against trade. The relationships between trade and labor standards, and between trade and corruption, need to be seriously discussed.

It would be possible to address all these issues in a series of separate regional negotiations. Indeed, some of the regional agreements have innovated successfully in addressing new topics in the past. The Canada-United States Free Trade Agreement provided a model for some of the services talks in the Uruguay Round, Australia and New Zealand successfully meshed their competition policies in a manner that also enabled then to eliminate antidumping duties, and NAFTA has pioneered investment rules. But there would be a serious risk of inconsistency if such issues were addressed differently in the regional forums. It would be much more efficient to derive worldwide approaches that could be applied by all. The case for globalism is again compelling.

THE GRAND BARGAIN

THE MEMBERS of the WTO should therefore agree to consolidate their regional arrangements into a global commitment to achieve worldwide free trade by a certain date. The date could be 2010, on the APEC and Euromed models, with a possible extension to 2015 or 2020 for the poorest countries.

Such a commitment would rest on a "grand bargain" between two groups of countries: the high-income mature economies of North

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America and Western Europe and the rapidly growing, lower-income countries that make up most of the rest of the world (with Japan somewhere in between). The lower-income fast growers (and Japan) owe much of their spectacular success to the openness of the world economy that enabled them to pursue outward-oriented development strategies. Hence they need insurance against any reversion to protection by the old rich, including procedural safeguards against subtle methods of undoing prior market opening. In the regional agreements already adopted, they have demonstrated a willingness to pay the premiums necessary to buy such insurance.

There is a second component of the "insurance motive" in a number of developing countries: insurance that their domestic successors will not reverse the liberalization of their own economies. Such reforms can be locked in by making a country's liberalization binding in international agreements, regional or global. Such bindings apply only to trade and investment policies and directly related domestic measures. But it would be difficult to undo most domestic reforms if it were impossible to raise new external barriers to support a renewed flirtation with dirigisme.

The Asian and Latin American countries have been predominantly concerned about a possible reversion to protection in the United States, by far their largest market, and hence have emphasized trade deals with that country. They are also concerned about Europe, however, so are pursuing that dimension as well, Mercosur through negotiating a trade agreement with the EU, East Asia through its new summits with the Europeans. Neither of these arrangements is likely to produce much substance, however, and they would in any case raise all the problems of duplication and inconsistency cited above. East Asia and Latin America, which are likely to be the two fastest-growing parts of the world economy over the coming decades, would thus benefit greatly from extending to Europe the free trade commitments they have already elicited from the United States. This can be done only through a global effort in the WTO.

The second part of the grand bargain would provide the higher-income countries with full access to the markets of the lower-income but rapidly growing countries around the world (and Japan). Most of this latter group, despite the impressive liberalization of many over the past decade or so, retains substantial trade barriers.

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This part of the bargain would be attractive to the rich countries because they too are heavily dependent on export expansion. Such dependence is nothing new for Europe but has also now evolved in a major way for the United States—where the share of trade in the economy has risen by two-and-a-half times over the past generation. As exemplified by the "Big Emerging Markets" strategy of the Clinton administration, this rich country interest focuses primarily on countries with large and rapidly growing markets that still maintain substantial access barriers. Hence the United States and Europe would also benefit greatly from the proposed grand bargain.

The fast growers need insurance that the old rich will not regress.

There is nothing conceptually new in this proposal that the old rich pledge to avoid new barriers while the rapid growers commit to eliminate theirs. Such asymmetric liberalization lies at the heart of NAFTA, the FTAA, APEC, and the more recent extensions of the EU. In these regional versions of the grand bargain, the poorer countries have bought assured continued access to the markets of the rich states by agreeing to catch up over time with those countries' prior liberalization. The asymmetry is equitable because the willingness of the rich countries to facilitate the outward-oriented growth strategies of the poor was instrumental in enabling the latter to start catching up in terms of living standards.

The novel element here is shifting the context to the global plane via the WTO. This move would consolidate and link the existing regional agreements. It would bring the former Soviet Union, South Asia, Africa, and the few other uncovered parts of the world into the deal. It would keep the bicycle moving forward for some time.

THE PATH TO THE GRAND BARGAIN

THE UNITED States attempted to move in the proposed direction with its "Open Markets 2000" proposal at the Group of Seven summit in Naples in July 1994 but was turned down by the EU. Several EU members reportedly blocked recent proposals by the European Commission that the union negotiate modest trade agreements in Latin America. Given the EU's overarching focus on its own regional

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concerns, centering on the expansion of its membership to the east and the deepening of its integration, including monetary union, it is doubtful that Europe will be prepared for a leadership role in the global system at any early date.

Nor can the United States forge the next global trade initiative by itself. Its latest effort was rebuffed, as just noted, but so was its similar push to renew global momentum after the Tokyo Round as long ago as 1982. The security leverage that permitted previous American leadership in this area (as so many others) has disappeared with the end of the Cold War. American domestic politics can be brought to support a new global round despite the criticisms of the WTO and trade liberalization more generally, but probably not to provide solo leadership for it.

The alternative is APEC, which includes the world's three largest economies (the United States, Japan, and China) and accounts for half of world output. From its inception in 1989, APEC has proceeded under the mantle of "open regionalism"—a term deliberately chosen to contrast it with the inward-looking regionalism that was feared in both Europe and North America. Every pronouncement by APEC leaders, including the 1994 Bogor Declaration that committed its membership to "free and open trade and investment in the region," has emphasized the group's commitment to further global liberalization and its antipathy toward becoming an exclusionary bloc.

APEC has not defined "open regionalism." Its members have, however, committed themselves to continue reducing their barriers to nonmember countries as they move toward free trade in the region. Some of them might extend their APEC liberalization to nonmembers unconditionally, which they are perfectly free to do, as APEC has no intention of becoming a customs union with a common external trade policy.

Most likely, however, APEC will offer to generalize its regional liberalization to the rest of the world on a reciprocal basis. Since APEC accounts for about half the world economy, global liberalization and hence world economic benefits will double because nonmembers cannot afford to reject the offer. Furthermore, the political economy of trade policy requires the mobilization of domestic export interests by offering them sufficiently enhanced access to foreign markets to induce them to undertake the effort necessary to win national support for liberalization.

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APEC thus has the capability and the inclination to initiate the next major episode of global trade liberalization. It has already made a commitment to achieve free trade in its region and is hard at work converting that vision into practical reality. It is in a strong position to assume leadership of the global trading system.[4]

STARTING THE PROCESS

THE WORLD Trade Organization's first ministerial meeting, scheduled for December 1996 in Singapore, would be the natural occasion to begin the process of achieving global free trade in the early part of the 21st century. It would clearly be premature, however, to seek a global free trade pledge at that time. The United States will have just concluded a presidential campaign in which the incumbent, who took a courageous lead in signing and ratifying free trade pacts during his first two years in office, became reluctant to discuss the issue, and his opponents have been equally hesitant if not explicitly hostile. The EU will be preoccupied well into 1997 by the Intergovernmental Conference on the future of its integration process. APEC will probably not yet be far enough along in implementing its own plans to provide the needed inducement for others to join it. Several of the largest trading nations (including China, Russia, and Taiwan) remain outside the WTO.

In determining a role for the Singapore ministerial, however, it is important to set long-term systemic goals and then work backward. An agreement to achieve global free trade by 2010 could plausibly be reached at the succeeding WTO meeting in 1998. To do so, planning needs to proceed on a number of fronts.

First, the biennial WTO meeting in 1998 should be converted into the first global trade summit. The GATT never held a summit meeting. Yet summits have been a regular feature of the European integration process, the rapid evolution of APEC since 1993, the launch of the FTAA, and key subregional trade arrangements including AFTA and Mercosur. The WTO should bring together its heads of government at the last

[4]APEC of course has undertaken several initiatives in addition to trade liberalization, in the areas of trade facilitation, finance, and development cooperation. It will remain an extremely important institution even if its regional trade plans are globalized.

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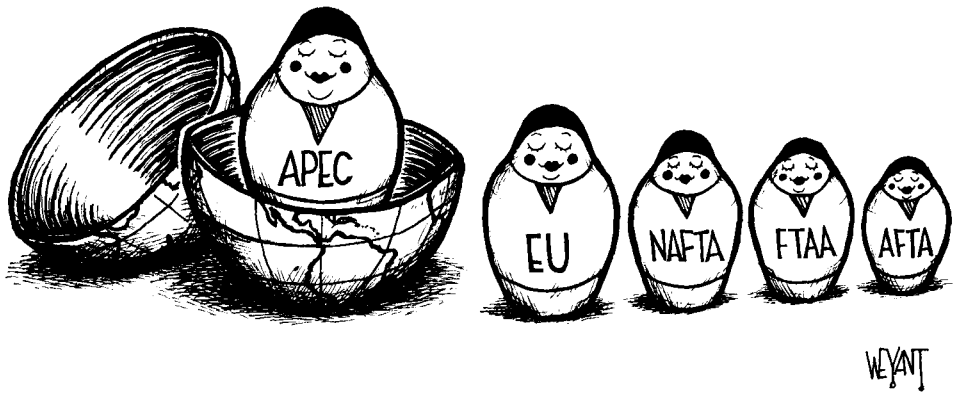

high-level meeting of the world trade body in the twentieth century to set a vision for the global trading system in the 21st.

Second, the Singapore ministerial should appoint a wise persons group to make recommendations for the future of the trading system. A similar group, chaired by Fritz Leutwiler of Switzerland and including U.S. Senator Bill Bradley (D-N.J.), was created by the GATT in late 1983. Its report in early 1985 made an important contribution to the decision to begin the Uruguay Round in 1986. AFTA was proposed by a group of private advisers from the Association of Southeast Asian Nations. The APEC vision was initially proposed by that organization's Eminent Persons Group. It is essential to move outside official circles to produce bold ideas for major initiatives.

Third, Singapore should initiate a work program to tee up the issues that would form the substantive core of the global free trade negotiations. Fortunately, there is already widespread agreement on most points of that agenda. The Uruguay Round itself laid out an ambitious schedule of further negotiations, including telecommunications and maritime services in 1996, financial services (again) in 1997, government procurement in 1999, and agriculture and services in 2000. Consultations among the WTO members have identified an additional set of priority topics along the lines of those outlined above: competition policy, investment, trade-environment linkages, perhaps labor standards and their relationship to trade, and several others.

Another important preparatory step is to complete the membership of the WTO. Singapore should accelerate the effort to bring China, Russia, and the other large nonmembers into the institution in time

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to participate fully in the proposed negotiations. These countries must of course comply with the organization's requirements to get in, but no move to global free trade can be complete without them.

Finally, the WTO needs to continue establishing its own credibility throughout the world. This effort will require effective implementation of its dispute settlement mechanism, more transparency in its operations so all interested parties can see how they work in practice, and efficient management of the overall organization. Trust in the institution is a prerequisite for giving it the additional responsibilities suggested here, as well as for allaying fears that it violates the sovereignty of member countries.

The logic of global trade rounds has always prevailed in the past.

Beyond these preparatory steps, a number of key questions remain to be answered before a global free trade pledge can be adopted. For example, how should free trade be defined? It should clearly apply to all tariffs, quotas, and other border barriers—which would require substantial liberalization in many developing countries but not much in most of the industrial world. It should also extend to selected measures behind the border because of the central role they play in blocking contestability of markets, and hence in current and foreseeable trade conflicts with some countries (such as Japan).

Another key issue is the definition of reciprocity or comparability. All agree in principle that any negotiation of this matter must elicit fair contributions from all parties. But it is extremely difficult, in purely intellectual terms even before turning to the politics, to equate concessions across issues as disparate as tariffs and national competition policies. The concept of reciprocity was never very precise and became even more difficult when the GATT turned to negotiating nontariff barriers. Nevertheless, the political economy of trade requires each country to demonstrate that its own concessions were matched by those of its partners, and it is highly desirable to buttress the case with orders of magnitude if not precise estimates.

Another question is whether the goal of global free trade should be achieved via another comprehensive trading round with a single deadline or via continuous negotiations over time on individual issues. At the end of each previous round, including Uruguay, virtually all partic-

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ipants have dismissed the idea of launching such an all-encompassing effort ever again. "Trade fatigue" is fully understandable in those who have had to labor to bring such an effort to conclusion, especially since the latest round took seven years. Moreover, individual negotiations are now occurring in the WTO on a wide range of topics, including financial services and telecommunications, and there is some reason to be encouraged by the results to date.

On the other hand, the logic of rounds has always prevailed in the past. Comprehensive coverage has proved necessary to offer the maximum scope for liberalization across sectors and issues, thereby inducing the greatest number of countries to agree to the largest possible liberalization. Sectoral or issue-specific efforts, by contrast, require intra-issue tradeoffs that tend to minimize the headway that can be made. The current process of issue-specific negotiations should be monitored closely to see if it looks promising as a long-term proposition, at least with respect to rule-making, but the rejection of the financial services package by the United States last year constitutes a warning that broader inducements may be needed with respect to liberalization. The tried-and-true alternative of a round should be kept foremost in mind, especially to achieve global free trade by 2010, which would be the most ambitious multilateral trade initiative ever attempted.

WILL IT FLY?

THE FINAL QUESTION is the most crucial. Is such a proposal politically feasible in the key countries? The doubts and fears outlined above suggest that a herculean effort will be needed to pull it off.

The pivotal actor, as in all past global trade initiatives, will probably be the United States. The Europeans, for all their apparent insularity, have removed all barriers to each other and logically point out that it would be inconsistent for them to impose new restraints on nonmembers. Japan cannot afford to block progress sought by others, as it indicated when it agreed to liberalize rice imports—its politically most sensitive sector by far—at the end of the Uruguay Round. Most developing countries are even more dependent on trade and have been actively engaged for some time in the process of competitive liberalization.

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Perhaps surprisingly, there are two reasons why the case for global free trade by 2010 should be eminently salable in the United States. First, increased trade can be a big help in enabling America to solve its most pressing economic and social problem—widespread stagnation of wages, incomes, and standards of living. Export jobs pay 15 percent more than the average wage. Worker productivity at exporting firms is 20 to 40 percent higher. These firms expand employment 20 percent faster than nonexporting firms and are 10 percent less likely to fail. Small and medium-sized exporters do even better than large ones and account for 70 percent of all sales abroad.[5]

Hence a shift to export jobs from import-competing jobs, which would be the net result if trade liberalization had no impact on the American trade balance, would help considerably even though the latter also pay more than the national average. Better yet would be a shift to export jobs from the nontradable (mainly services) sector, in which most of the jobs pay less than most tradables (mainly manufacturing), which would occur if liberalization helped the United States reduce its trade deficit. This reduction is quite feasible without raising major international problems because the United States continues to run annual trade deficits of about $175 billion. An improvement of even $100 billion in America's net external position, lowering the deficit to about one percent of GDP, would create one to two million more of these high-paying export jobs than would be lost to growing imports. Total elimination of the external deficit would have twice as favorable an impact. Such improvement in the country's net external position should thus be a cardinal policy goal of the next administration, primarily because it would be a major boost in dealing with the country's chief domestic problem.

To be sure, substantial adjustments in the United States' internal economy will be required to achieve such a shift. Net national saving must rise by one to two percent of GDP to obviate the need for the net capital inflows that are the counterpart of the current account deficits, but savings will rise by that amount if the budget deficit is eliminated by 2002 or so, even if private savings fail to rebound from their cur-

[5]These and other data are derived in J. David Richardson and Karin Rindal, *Why Exports Matter: More!*, Washington: Institute for International Economics, 1996.

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rent historic lows.[6] Individuals will need better education, training, and retraining to compete effectively in the world economy, but they will need those investments to raise their incomes regardless of what happens on the trade front.

These internal efforts would be greatly reinforced if American exports could win full access to foreign markets. Exports have done well in recent years. They have more than doubled as a share of total U.S. output since 1960. They would make an important contribution to solving America's fundamental economic and social problems if they double again by 2010.

Export jobs pay 15 percent more than the average wage.

The second reason global free trade should be salable in the United States is that it would mean a sharp reduction in barriers in most other countries compared with very little liberalization in the United States, where markets are already largely free.[7] But the United States would not receive a totally free ride in such negotiations. Other countries, in both the industrial and developing worlds, would insist that the United States subject its import safeguard measures (such as antidumping duties) and its export promotion tools (such as Section 301) to more stringent multilateral discipline. This is a modest price for the United States to pay, however, and the reduction of actual barriers remains almost wholly asymmetrical.

From the American standpoint, such an initiative is the only way to achieve a truly level playing field across the world economy. Indeed, a push for global free trade is the only way for the United States to achieve fair trade. At a stroke, it would greatly increase and roll into a single package the benefits that otherwise would be provided for the American economy by NAFTA, APEC, and the FTAA.

To be sure, a major political debate will be needed in the United States if such an initiative is to be endorsed. That debate will have to

[6]These net capital inflows, though essential to fund domestic investment, are a direct cause of the trade deficit because they push up the exchange rate of the dollar and thereby reduce American competitiveness in world markets (including its own).

[7]America's remaining barriers carry a net economic cost of only about $10 billion in an economy of $7 trillion. See Gary C. Hufbauer and Kimberly Ann Elliott, *Measuring the Costs of Protection in the United States,* Washington: Institute for International Economics, January 1994.

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come anyway, if not in this year's campaign then in 1997 or 1998 as the administration of the day seeks congressional approval to proceed with the liberalizations already agreed upon in APEC and the FTAA. Globalizing free trade would add only modestly to the needed authority, primarily by adding Europe, with which trade is already largely free.

But the idea of free trade with China and Japan, or even Brazil and Indonesia, will make the NAFTA debate of 1993 pale by comparison. The United States historically has been far more successful with large initiatives than small ones, however, certainly in trade. Sweeping visions, such as the Kennedy Round and its successors, engage the president and Congress in a major national venture. The business community and other supportive constituencies make the investments needed to carry the day. Once launched, the initiatives command sufficient momentum to overcome rearguard efforts to derail or even erode them.

Global free trade by 2010 would enhance the prosperity of all countries by underwriting the ultimate success for competitive liberalization. It would preclude the risk that regional arrangements could develop into hostile blocs. It would terminate any risk of North-South conflict by engaging both sets of countries in a cooperative multilateral enterprise that meets the needs of both. Such a vision should guide this area of international affairs as the world enters the 21st century.

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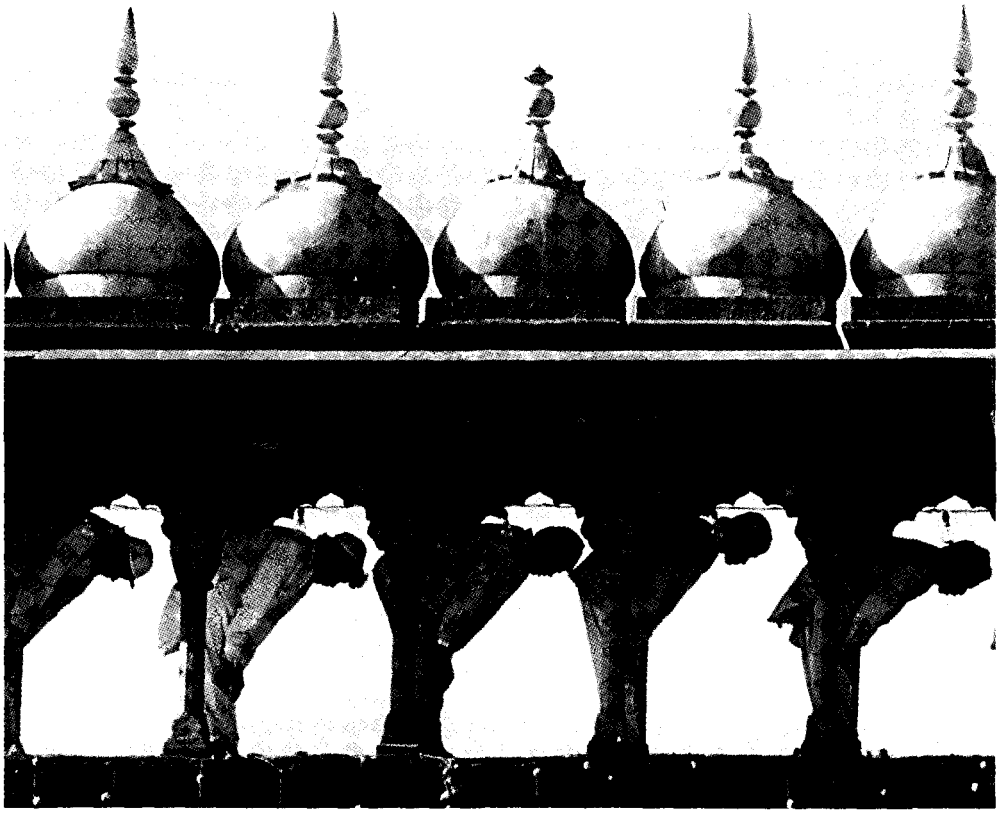
Reviews



REUTERS/BETTMANN

Muslims pray at the end of Ramadan in Delhi.

Challenging Islamic militance should be an article of faith for Muslims.

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Review Essay

A New Islamic Politics

Faith and Human Rights in the Middle East

Abdullahi A. An-Naim

God Has 99 Names: Reporting from a Militant Middle East. BY JUDITH MILLER. New York: Simon & Schuster, 1996, 512 pp. $27.50.

Judith Miller masterfully deploys her insider's knowledge of the events and personalities behind the Islamization of politics in the Middle East. Former Cairo bureau chief of *The New York Times*, Miller has spent 25 years reporting from the region. Hers is an extensively documented yet personal narrative with dozens of characters both ordinary and extraordinary, animated by the author's compassion for the peoples of the Middle East. In ten chapters, each devoted to a different country, Miller combines sweeping historical surveys and a journalist's reminiscences with examinations of militant Islamic groups from Hamas to the challengers of Libya's Muammar Qaddafi to the leaders behind the Islamic governments of Iran and Sudan. The book traces the militants' intellectual and ideological roots back to the early years of this century and uncovers current political and financial connections within the region and beyond.

But how many names of God has Miller truly perceived and understood? Could she have missed what she was not looking for, and found only what she was seeking?

POINT OF VIEW

Miller says her reasons for choosing the countries she writes about are "obvious" and does not attempt to justify her focus on Islamic militancy. Yet she claims to "convey . . . the mood of the countries

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within the region, the tone of their debates, and the forms taken by the struggle for dominance." Her selectivity, however, not only anticipates negative conclusions about Islam but may contribute to their validation.

The militancy Miller critiques so effectively is indeed bound up with the region's persistent political problems and economic weakness. But that does not mean Islam is the problem (as against the Islamists' chant, "Islam is the solution"). Writing on Islamism in the West has been unrelentingly negative. Certainly the militants' violent and oppressive behavior must be shown to have no basis in Islam. But the international media should also report on the more rational and humane Islamic perspectives.

Miller states: "While I have tried to keep an open mind about traditions and cultures that differ from my own, I make no apology for the fact that as a Western woman and an American, I believe firmly in the inherent dignity of the individual and the value of human rights and legal equality for all. In this commitment, I, too, am unapologetically militant." One has confidence in Miller's professional ability to minimize her perspective's influence on her reporting, but who one is and what one believes in necessarily affect how one perceives the other, even in the most successful efforts at cross-cultural understanding.

While Miller exposes the profound human rights problems in the theory and practice of militant Islamists, she is ambivalent about violations of human rights by "moderate" regimes. She "can hardly endorse the [Algerian] government's refusal to abide by the [1991] election results, [but] was relieved that it had done so." What does that tell both sides in Algeria? She supports "Egypt's suppression of violent militant Islamists" but does not condone "torture, emergency military trials, and other illegal means that have become routine features of the government's anti-Islamist campaign." How else does she think the policy she backs will be achieved, if not through means she abhors?

The book vividly depicts the suffering of Palestinians and Arab citizens of Israel, delivers the occasional reproach for Israeli "excesses" such as the torture of prisoners, and discusses Israel's misguided promotion of Hamas in the 1980s as a counterweight to the Palestine Liberation Organization. But Miller's tone makes all this sound like regrettable but understandable political reality. I looked in vain for scrutiny, from the standpoint of human rights, of the inherently discriminatory nature of an officially Jewish state and the consequences for the region. Considering how the Israeli dimension of their predicament obsesses Muslims of all stripes, Miller could have helped frustrate manipulation of the issue by governments as well as Islamist groups by engaging the implications of her analysis.

Each of the three examples above points up the difficulty of reconciling competing claims to self-determination, whether by the proponents and opponents of sharia (Islamic law) in countries like Egypt and Algeria or by Jews and Palestinians in Israel and the (formerly?) occupied territories. Each set of "internal" difficulties, moreover, tends to be viewed in light of other factors, such as real or perceived bias for or against Islam or Israel. An appreciation of the other

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side's fears can contribute to the reconciliation of competing claims.

ISLAM RUNS DEEP

Miller is right to call on Muslim intellectuals to ask, "What did we do wrong?" rather than "Who did this to us?" and to encourage them to seek solutions for tyranny and economic failure in their countries. But I sense in her analysis a negative view of Islam, even apart from her focus on Islamic militancy. Miller's accounts of individual Muslims' lives, while sympathetic, paint them as trapped in a difficult and painful situation rather than as being there by choice or drawing strength from their faith. In the only part of the book to present a clear view of Islam's founder, the Prophet Muhammad—six pages in the chapter on Saudi Arabia—Miller serves up a cruel, opportunistic figure, shorn of context, that, ironically, Islamic militants past and present have evoked to legitimate the use of violence and the worst kind of intolerance.

If the constraints of daily reporting on what is considered newsworthy require a focus on Islamic militants and their suicide bombs, a 500-page book should provide an opportunity to present a broader picture of Islam as a world religion and civilization. If one refuses to see Islam's very real spiritual value, liberating force, and moderating influence on individuals and the community, one might reasonably conclude that for Muslim countries to catch up with the rest of the world, the faith must be marginalized.

If the history Miller recounts here demonstrates anything, it is that Islam remains central to identity, political mobilization and organization, ethics, and legal systems throughout the region—to Muslims' very worldview. Each of the book's chapters brings that home anew. In Sudan Islam runs so deep that "even the Communists were Islamists." Born and raised under the strongly secular regime in Syria, the daughter of a thoroughly Westernized businesswoman seeks an "Islamic life." Beginning with Egypt in the 1970s, governments in the region have adopted Islamic symbols. While Islamic authenticity by itself is a dubious and oft-manipulated goal, the religion has intense spiritual and political appeal among Muslims who look to it for the organizing principles of their lives. It is difficult to imagine predominantly Muslim societies abandoning their belief in an Islamic order as an ideal to be pursued, regardless of how elusive and problematic such an order may prove in real life.

Miller notes, as have many secular Muslims, that corrupt and discredited regimes have at times sought to prop themselves up with claims of Islamic legitimacy. Such cynical maneuvers have usually ended up strengthening militants and encouraging them to demand more power, as in Egypt and Algeria; Sudan's Islamic militants finally took over the state. But surely this does not mean that Islamic legitimacy is inherently bad.

For believers, however, challenging objectionable formulations of Islam should be a matter of principle. Islamic militants stand for the view that Islam is synonymous with discrimination against women and non-Muslims, that random violence aimed at political change is a legitimate form of jihad, that the death penalty is appropriate for apostasy, and other aspects of traditional conceptions of sharia. All Muslims opposed to this

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view must challenge it, regardless of the political success or failure of the proponents of sharia.

Miller dismisses attempts to marry a commitment to human rights with Islam. She observes that in Islamist movements, as in ideological movements in general, "the more ruthless tend to prevail." But Islamic militants are able to define the parameters of Islamic politics because of the abdication of Muslim intellectuals. When Mahmoud Muhammad Taha, the Sudanese Muslim reformer whose execution Miller describes in the opening pages of her book, was told by Sudanese intellectuals, "Your ideas are enlightened and positive, but when will people accept them?" he would respond, "You are the people. When will you accept these ideas and behave accordingly?"

THE MIRAGE OF SECULARISM

Many of those who concede to the Islamists the right to define the Islamic agenda for their countries and the Middle East as a whole do so in the expectation of someday substituting a secular discourse in which Islamists could not effectively compete for power. But a secular politics is unlikely to prevail in predominantly Muslim societies. By continuing to pursue the mirage of secularism, Muslim liberals and leftists alike may lose the possibility of a humane Islamic alternative, which is being defeated more by the indifference of its natural constituencies than by its opponents' ability to criticize it in Islamic terms.

In the Middle East today, the "Islamic left" of Tariq al-Bishri and Hassan Hanafi of Egypt, Muhammad Abid al-Jabri of Morocco, Abdalla al-Nafisi of Kuwait, Muhammad al-Talbi and Abdel Majid al-Sharfi of Tunisia, and many others is widely known and appreciated, if not yet a focus of mass movements. Working from an explicitly Islamic perspective in their respective fields of law, philosophy, history, politics, and sociology, these intellectuals are attempting to modernize interpretations of Islam both in the academy and in areas of practical concern like development, constitutionalism, and the protection of human rights. Scholar-activists like al-Nafisi, a founding member of the Arab Human Rights Organization, are engaged in political struggles for democratization in their countries as well as contributing to regionwide initiatives. More broadly, beyond the traditional practices of Sufi orders and popular Islam in the societies of the region is an ethos of tolerance and peaceful coexistence that millions of Muslims share.

Islamists and Muslim human rights advocates doubt the relevance to their project of each other's guiding concern. While Islamists who believe in the unity of religion and state tend to reject international human rights standards as a tool of Western cultural imperialism, rights advocates see any link between religion and the state as a threat. By refusing to seriously consider the other side's perspective, each camp helps widen this divide.

That is not to say their fears are groundless. History records drastic losses of personal liberty under religious regimes as well as high social and moral costs under secularism. In Nasser's Egypt, Algeria under the National Liberation Front, and Baathist Iraq and Syria, secular ideology has proved as oppressive as doctrinaire religion. Iran and Sudan today demonstrate that religious doctrine can have serious social and moral costs aside from the loss of personal freedom.

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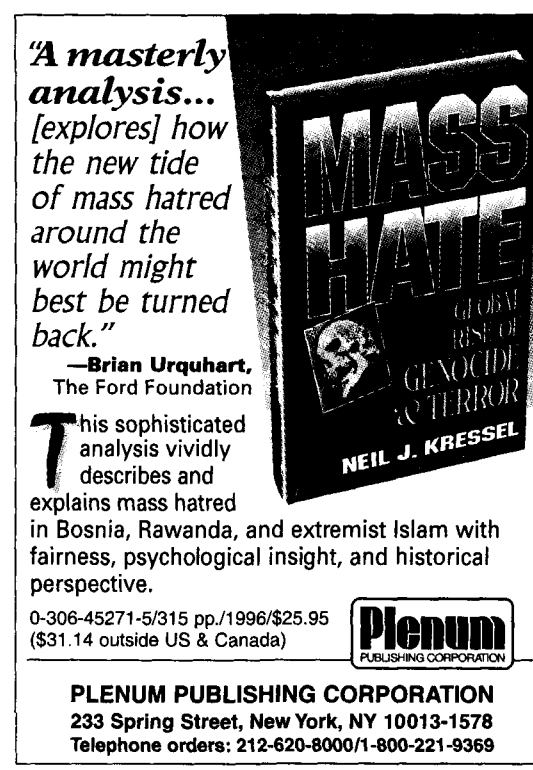
The dichotomy between the Islamic and the secular is artificial; believers do not think and behave in such a compartmentalized fashion.

Although Islam should play a central part in the formulation of policy and the shaping of official and private behavior in Muslim societies, a static, deterministic view of its role is misguided. Muslim perceptions of Islam are constantly evolving in response to internal and external developments. To the extent that the worldview, moral orientation, and day-to-day behavior of Muslims are conditioned by their religious beliefs, the precise meaning and content of an Islamic normative system is also the product of human reason and choice. God's guidance was revealed to a man living in a specific society at a specific time in history, was conveyed in a human language, and was understood and practiced by the man and his contemporaries and dozens of subsequent generations of Muslims. It may sound heretical, but this being so, how can Islam and its precepts be other than partly divine and partly human?

Muslims will always possess a wonderful variety of understandings of Islam and its role in their lives—the 99 names of God. Although difficult to translate, some of the names convey a God who is compassionate and peaceful, while others paint an unforgiving, belligerent deity. The essence of God is beyond comprehension, but He has elected to describe Himself in human terms so that human beings can come closer to knowing and emulating Him. Muslims face a moral choice: which of the 99 names of God will they follow, both individually and collectively?

The humane majority may be the norm rather than the exception in the Muslim countries of the Middle East. The challenge for tolerant Muslim intellectuals and activists is to capture the imagination of the same constituencies the militants target and to encourage political organization and action from an alternative Islamic perspective.

For their part, concerned observers like Miller, and the policymakers and international audience she and her colleagues inform, should keep their eyes and minds open to *all* the choices Muslims are making—the humane and enlightened as well as the fanatical and regressive. If she believes in the dignity of the individual, human rights, and equality for all, Miller should seek out and actively support Middle Eastern women and men who are striving *as Muslims* to uphold those same values.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Review Essay

Rice Bowls and Dust Bowls

Africa, Not China, Faces a Food Crisis

Robert L. Paarlberg

Who Will Feed China? Wake-Up Call for a Small Planet. BY LESTER R. BROWN. New York: W. W. Norton/Worldwatch Institute, 1995, 160 pp. $19.95 (paper, $8.95).

World grain markets tightened sharply in 1995, bringing Malthusian worries back into fashion. A weather-related drop in corn production in the United States combined with strong worldwide demand to push U.S. corn export prices up 45 percent in a single season. Corn and wheat prices on the Chicago Board of Trade jumped to a 15-year high. Both the United States and the European Union stopped subsidizing wheat exports, and the EU even imposed export taxes to guard against shortages at home. The U.N. Food and Agriculture Organization (FAO) projected that world grain stocks would fall, before a new harvest came in, to between 14 percent and 15 percent of annual consumption, the lowest level in two decades, and much less than the 17 percent to 18 percent level the organization considers safe.

Lester R. Brown, president of Worldwatch Institute, believes these short-term changes may be the leading edge of a disturbing scenario: world grain shortages caused by the growing imports of China. In *Who Will Feed China? Wake-Up Call for a Small Planet*, Brown calculates that by the year 2030 China's need for grain imports will far outstrip the spare production capacity of exporting nations. International prices will then skyrocket, imperiling consumers in poor importing countries. This scenario seemed to be unfolding ahead of schedule last year, when China, already the world's largest importer of wheat, switched from being an exporter to an importer of corn.

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The result has been a flurry of speculation about the trouble facing Chinese agriculture and the long-term consequences for the world food system. In China itself, even top leaders such as Premier Li Peng have expressed concern. Yet the most severe problems facing today's world food system—and tomorrow's—will not be in China, but in South Asia and Africa. Especially in Africa, which is plagued by poor government, slow economic growth, and rural environmental degradation, malnutrition is likely to increase in the decades ahead, whether or not prices rise in the international commercial marketplace.

GRAIN PROSPECTS

Brown forecasts continuous rapid growth in Chinese grain consumption, a reasonable expectation given the dietary enrichment likely to accompany high income growth in the country's rapidly industrializing cities. Chinese consumers will demand more meat, eggs, and other livestock products, causing demand for animal feed to surge. But Brown is wrong to assume that grain producers in exporting nations and in China will be unable to meet this demand. He is also wrong to suggest that rising grain imports would be an indication of China's weakness or failure. And he draws too strong a connection between international grain prices and localized chronic malnutrition.

Brown underestimates by a wide margin the capacity of farmers in China and worldwide to respond to higher prices with more production. His forecast of world grain output, which assumes ruinously high prices by 2030, projects only a modest average increase of half a percent annually in production. That is less than one-third the 1.6 percent annual increase projected by FAO, far less than half the 1.3 percent annual increase projected by the World Bank, and less than one-fifth the 2.6 percent annual increase actually registered between 1961 and 1990.

Why is Brown such a pessimist? He points to the 1970s, when world grain prices suddenly doubled, mainly due to high income growth rates and inflationary monetary policies throughout the industrial world. Prices for all commodities—including oil, copper, bauxite, and tin—increased sharply between 1972 and 1974 because of the same macroeconomic effects. Farmers everywhere responded by planting larger areas, using more water and fertilizer, switching to new varieties of seeds, and buying better equipment, all of which greatly boosted production. In the United States, the five-year average for annual wheat production climbed 60 percent from 1970-75 to 1980-85. Brown then dismisses this response by claiming it was not environmentally sustainable; he argues that American farmers planted too much marginal land and were forced to pull back when the soil eroded and profits fell. Not true. Profits for American farmers did decline sharply in the mid-1980s, and production subsequently turned down, but the reason was a drop in prices. Between 1974 and 1987, as macroeconomic conditions changed, the export price of wheat fell in real terms by more than two-thirds. Naturally production declined.

If the high world prices Brown foresees were to materialize, much higher production would quickly follow, and not just in the United States. Already in 1996, planted corn acreage in the United States is expected to be up by 13 percent, and Canada, Australia, the EU, Ukraine,

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Argentina, South Africa, and many other agricultural exporters could respond as well. Dennis Avery of the Hudson Institute, a longstanding critic of Brown's bleak projections, has estimated that Argentina could convert 75 million acres of land with deep, fertile soil in the Pampas from pasture to grain production if grain prices sustained a rise over the long term. Brazil has more than 150 million acres of arable unplanted land in the central Cerrados Plateau. Over the 40-year period in Brown's scenario, there would be abundant opportunity to build railroads, install electrical capacity, and develop corn varieties tolerant of the plateau's acidic soil, transforming the region into yet another grain belt, ready to meet world market demand.

Most astonishing is Brown's projection that China will suffer a 20 percent decline in grain production between 1990 and 2030. Again, he is badly out of step with mainstream expectations. The U.S. Department of Agriculture projects annual *growth* of about one percent in China's grain output in the years ahead. The International Food Policy Research Institute in Washington forecasts that Chinese wheat, corn, and rice production will increase by 90 percent, 80 percent, and 54 percent, respectively, by the year 2020. Nikos Alexandratos, a specialist at FAO, has estimated China's production of cereals—wheat, corn, and rice—could rise 68 percent between 1990 and 2030, even if the area sown with cereal crops were to decline 12 percent.

Brown justifies his extraordinary pessimism about China by predicting a massive loss of land now used for growing grain—roughly half by 2030—through degradation or conversion to other uses. He argues that better crop yields will not be enough to offset the loss. This is misleading because switching from grain to high-value crops, such as vegetables, should be viewed as a gain for Chinese farmers, not a loss, and it is unjustified because it is based on an imperfect analogy to the experiences of countries such as Japan, Korea, and Taiwan. They converted land away from farming, including grain production, as their economies developed, but did so because they had fewer options for growth in agricultural production than China has today.

Brown's forecast of China's future crop yields is derived in part from Chinese government reports, which suggest current rice yields are already approaching Japan's output of roughly five tons per hectare—a high level that seems to leave little room for improvement. This is mistaken on two counts. The crop yields officially reported by the Chinese government are indeed high, yet they are known to be inflated to offset chronic underreporting of cropland area by farmers seeking to escape property taxes. Vaclav Smil, a professor at the University of Manitoba, estimates that actual yields for most crops in China are 15 to 20 percent lower than official figures, and for some crops nearly a third lower, which would put Chinese yields well below the Japanese level. Furthermore, the Japanese level of five tons per hectare is not the current limit. Since 1985 rice yields in the United States have exceeded six tons per hectare, South Korea's yields have approached seven tons per hectare, and Australian yields now exceed eight tons per hectare. Assuming investment in research, yield potentials will, in any case, continue to rise through the year 2030. In 1994, at

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roughly the same time Brown was first making his argument, the International Rice Research Institute in the Philippines announced that it had developed a new strain of rice with a yield as much as 25 percent greater than existing varieties.

IS TRADE BAD?

Who Will Feed China? also raises issues of interpretation. When countries such as China, Japan, Taiwan, or South Korea turn to the world market for grain imports, the move should not be taken as evidence of a faltering agricultural sector or an inability to feed themselves. Their steadily increasing grain imports are affordable because they have positive trade balances and balance-of-payments accounts. Grain imports are also a proven path to improved domestic nutrition and food security and permit a wiser use of environmental resources.

Grain imports spur economic growth in East Asia by allowing importers to capitalize on their comparative advantage in economic activities other than grain production. Japan would be a poorer country today if the feed grain it needs to produce domestic poultry, pork, and beef supplies had to be grown domestically, where land is scarce and expensive, rather than purchased at low cost from countries such as the United States, Canada, and Argentina, where land is far more abundant. China is wise to pursue similar gains from trade.

Grain imports make economic and environmental sense for China because its rural water resources and croplands are already under strain. From an environmental perspective, producing more feed grain on the flat, well-watered, naturally fertile, clear terrain of Illinois or Iowa makes more sense than plowing up more sloping, arid, infertile, and forested lands in rural China. Only by turning to the world market for grain will China save its depleted ground water from exhaustion and its scarce surface-level water resources from costly and environmentally unsustainable diversion.

Reliance on commercial grain imports is also a sound food and nutrition policy for China. Historically, threats to nutrition in China have come not from dependence on markets but from the actions of government officials who were unwilling to trust markets. In 1959-60 during the disastrous Great Leap Forward, when China was obsessed with self-sufficiency, the mismanagement of government grain procurement led to the deaths of an estimated 30 million Chinese peasants. The International Food Policy Research Institute has concluded that if China is willing to rely more on grain imports, the number of malnourished children nationwide could be reduced by 42 percent between 1990 and 2020—potentially the single largest reduction in malnutrition, in both absolute and relative terms, in any country in the world.

AFRICA, THE TRUE CHALLENGE

Between now and 2030 the world's food system will have to respond to more than its share of perils, but most will have nothing to do with China. In much of South Asia, population is dense and still growing rapidly, malnutrition is already severe (there are roughly four times as many underweight preschool children in South Asia as in China), and problems with soil degradation and water pollution are acute. In Africa, a harsh climate,

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poor endowments of natural resources, inadequate public investment in farm research and infrastructure, political corruption and instability, and rural poverty and gender inequity all conspire to keep the increase in food production at just two percent a year—below the rate of population growth. As much as 40 percent of the population is malnourished for part of each year.

The dilemmas in South Asia and Africa are not a product of far-fetched speculation about the distant future; they are a real threat today. These are local and regional food problems, sometimes highly specific to income, caste, gender, and ethnic groups. Malnutrition brought on by such conditions can persist and even worsen whether world grain prices are high or low. In large parts of Africa, the absence of all-weather paved roads can leave the vulnerable rural populations physically disconnected from the world market, and hence relatively unaffected by world price levels.

For Malthusians such as Brown, Africa should be the focus of concern, not China. While population growth is moderating in China, it is still surging dangerously in Africa. Between 1990 and 2050 China's population will rise to 1.6 billion from 1.1 billion, a 45 percent increase, while Africa's population will swell to perhaps 2.3 billion from 600 million, a 280 percent increase. By 2075 Africa could be more heavily populated than Asia.

Water scarcity is certainly worsening in China, where annual per capita water availability is projected to decrease by 31 percent by 2050. But lack of water is a far more severe problem in the semiarid regions of Africa. In Kenya, annual per capita water availability is projected to fall by 82 percent by the year 2050, to only 109 cubic meters per person, just 6 percent of the projected Chinese level. Africa's water resources for agriculture are already inadequate. Forty-four percent of the cultivated land in China is irrigated, compared to only four percent in Africa.

While crop yields and total production in China have shown strong gains in recent years—corn production averaged a 5.8 percent annual increase between 1985 and 1993, for example—yields in a number of African countries have actually declined. In the Sahel region of north-central Africa, drought and soil exhaustion drove down yields of sorghum by about 1.5 percent a year during the 1980s. Among 41 African countries, 13 had declines in yields for cereals, and 15 saw declines for root crops and tubers.

While some grain fields in China are being converted to more productive use, such as fruit and vegetable production, industry, transport, or services, in Africa vast areas of cropland and grazing land are being lost through degradation. On the southern edge of the Sahara, some 250,000 square miles of once-productive land, an area the size of Somalia, have become desert over the past 50 years. As yields have failed to increase on existing croplands, Africa's farmers have been forced to to cut down forests or move onto even more fragile lands to expand production. Africa loses roughly 12 million acres of forest every year, primarily as a result of clearance for agriculture.

Africa has little to show for this abuse; the sacrifice of the rural environment has led neither to economic growth nor to the reduction of poverty. Between 1970 and 1990 poverty among rural Kenyans increased to 47 percent from 40

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percent; in sub-Saharan Africa as a whole, the number of malnourished increased to 204 million from 96 million. Over the same period in China, poverty among rural Chinese declined to just 11 percent, from 39 percent. While rapidly industrializing China enjoys a $38 billion trade surplus with the United States and is thus more than able to afford larger grain imports, impoverished Africa must try to finance food imports through foreign aid. This will grow ever more difficult in the years ahead. If Africa's current two percent annual growth rate for food production is not accelerated, its food deficit—the projected difference between its food grain production and consumption—could increase more than sevenfold between 1990 and 2020, to 74 million tons of food grains.

For those trying to imagine how all the people of the world will be fed in the 21st century, Malthusian visions have their place. But that place is not China.

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Recent Books on International Relations

Political and Legal

FRANCIS FUKUYAMA

The Ultimate Crime: Who Betrayed the U.N. and Why. BY LINDA MELVERN. London: Allison & Busby, 1995, 442 pp. $31.00.

The sensationalist promotion of this book, from the picture of a decaying baby's corpse on the front cover to the title's suggestion that the author has uncovered a deep crime at the heart of the organization, belie what turns out to be a rather conventional telling of the U.N. story. As it turns out, the guilty parties that betrayed the United Nations are—surprise!—the permanent members of the Security Council, who failed to support U.N. efforts to engage in peace enforcement or prevent genocide. While engagingly written and full of colorful detail, the analysis falls far short of Rosemary Righter's recent volume on the same subject, *Utopia Lost*. The author suggests, for example, that the tragedies in Somalia, Bosnia, and Rwanda were all readily preventable but for malfeasance of the member states. She ducks the questions of whether an institution such as the United Nations is really capable of moving beyond peacekeeping to peace enforcement, for which other international mechanisms may be better suited.

Banal Nationalism. BY MICHAEL BILLIG. Thousand Oaks: Sage, 1995, 200 pp. $65.00 (paper, $21.95).

The author points out that in recent years nationalism has been associated almost exclusively with its extreme manifestations, such as in Serbia and Russia, leading most commentators to assume that globalization has been steadily weakening nationalism throughout the rest of the developed world. But as he quite correctly observes, national identity remains deeply embedded in the concepts, images, and very language of democracies like the United States and

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Britain. Starting from Ernest Gellner's observation that national identities are socially constructed, Billig presents fascinating instances in which national self-images of relatively recent vintage are wrongly taken to be primordial characteristics. Even cosmopolitan philosophers like Richard Rorty, the author notes, assume a framework of American national values. Billig's attitude toward banal nationalism tends to be negative (he is rankled by the American patriotism stirred by the Gulf War). But he does not consider some of the positive aspects of a sense of national community.

International News and Foreign Correspondents. BY STEPHEN HESS. Washington: Brookings, 1996, 194 pp. $26.95.

From Massacres to Genocide: The Media, Public Policy and Humanitarian Crises. EDITED BY ROBERT I. ROTBERG AND THOMAS G. WEISS. Washington: Brookings, 1996, 196 pp. $26.95.

These two Brookings volumes detail how media coverage shapes foreign policy. Hess' volume documents the declining and increasingly superficial coverage of foreign events and its continuing bias toward Europe, the Middle East, and political violence. The Rotberg-Weiss collection gives many examples of how the media's treatment of humanitarian crises distorts perceptions of the Third World. Of particular interest is Steven Livingston's chapter explaining why the humanitarian disaster in Somalia led to U.S. intervention while an equally tragic war and famine in Sudan were ignored. (The most important factors were access, safety, and the attitude of the Khartoum government.) While Hess fails to move beyond traditional broadcast media, Rotberg and Weiss delineate how new information technologies such as the Internet are critical to the humanitarian activities of nongovernmental organizations. Both books sharply criticize the media, which has unprecedented access to information but fails to inform the public adequately about foreign affairs. But in an age when many Americans do not know the names of their congressional representatives, the problem of inadequate knowledge may start closer to home.

Rights across Borders: Immigration and the Decline of Citizenship. BY DAVID JACOBSON. Baltimore: Johns Hopkins University Press, 1996, 181 pp. $33.50.

This short but well-written book addresses a neglected aspect of the contemporary decline of the nation-state. It

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studies in depth the different criteria by which France, Germany, and the United States distinguish between citizen and alien, from the political-territorial definition of the French to the ethno-cultural one of the Germans. The author notes that whatever the grounds, the ability of countries to set citizenship criteria is being undermined by the growth of transnational human rights, administered through courts and bodies like the Organization for Security and Cooperation in Europe. This change leads to new opportunities for civic engagement but also undermines national community.

The War against Authority: From the Crisis of Legitimacy to a New Social Contract. BY NICHOLAS N. KITTRIE. Baltimore: Johns Hopkins University Press, 1995, 304 pp. $29.95.

The title and introduction of this book are promising. Something like a global crisis of legitimacy has indeed emerged. In the United States, the rights revolution has undermined the authority of virtually every institution, from the family to the nation. Abroad, liberal democracy has spread, but its roots are shallow, and it is challenged by a host of alternative legitimating principles, from kinship to religion to nation. Kittrie's book, unfortunately, strays early on from discussion of the contemporary crisis of legitimacy to an ahistorical discussion of the sources of authority and rebellion. Its analysis is highly eclectic, bouncing from psychological to structural explanations and presenting too much disconnected detail. In the end, the book has no clear thesis regarding the origins of the contemporary crisis of legitimacy, and the proposed solution—a new social contract based on greater pluralism—is not different in kind from existing liberal orders and would not solve the fundamental question of authority they raise.

Fairness in International Law and Insitutions. BY THOMAS M. FRANCK. New York: Oxford University Press, 1996, 500 pp. $55.00.

This ambitious work begins with the premise that international law no longer has to defend its existence but can now make substantive progress, particularly on the matter of fairness. This the author does rather comprehensively, looking at the fairness of international law on the issues of self-determination, just and unjust wars, collective security, environmental norms, and international trade and investment. While the effort to move beyond procedural rules and to ground international law in a substantive fairness doctrine is laudable, its feasibility is questionable. Franck puts stock in the emergence of a world community with shared norms underpinning the burgeoning body of international law, but the reality in many nation-states is the breakdown of consensus on basic principles of distributive justice, with no solution other than liberal proceduralism in sight.

Revolution and War. BY STEPHEN M. WALT. Ithaca: Cornell University Press, 1996, 351 pp. $35.00.

The author seeks to explain why revolutionary states often become embroiled

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in wars with their neighbors. The answer, derived from detailed case studies of the French, Russian, and Iranian revolutions, is unsurprising: revolutions usually augur a shift in the "balance of threat," which, when coupled with the spiral of suspicion caused by the interaction of offensive and defensive military strategies, leads to conflict. The author seeks to preserve the validity of the realist paradigm by substituting balance of threat for balance of power as the major factor. In so doing he admits a whole range of domestic variables (intention, ideology, perceptions) into the realist model and transforms it into something quite different.

Enduring Western Civilization: The Construction of the Concept of Western Civilization and Its "Others." EDITED BY SILVIA FEDERICI. Westport: Praeger, 1995, 210 pp. $55.00 (paper, $19.95).

As the title suggests, the authors in this volume are not enamored of Western civilization and argue strongly for a multicultural curriculum to balance what they regard as the ethnocentrism of the traditional university. Many of the arguments start with kernels of truth: that Western civilization is not the unified tradition it pretends to be, that it borrowed from many non-Western sources, and that the teaching of other cultures is often terribly deficient. For the authors, however, these parts add up to a self-defeating agenda, exemplified by the chapter "Mathematics and Eurocentrism," which argues for the teaching of an "anti-racist" math. The result, however, would not be greater sympathy for or knowledge of non-Western cultures, but a compromised education.

Economic, Social, and Environmental

RICHARD N. COOPER

Risky Business: An Insider's Account of the Disaster at Lloyd's of London. BY ELIZABETH LUESSENHOP AND MARTIN MAYER. New York: Scribner, 1995, 352 pp. $25.00.

Ultimate Risk: The Inside Story of the Lloyd's Catastrophe. BY ADAM RAPHAEL. New York: Four Walls Eight Windows, 1995, 301 pp. $24.95.

The failure of the Lloyd's of London insurance market will overshadow the collapse of Barings and may rival the U.S. savings and loan debacle as an example of the fragility of complex financial markets. Here are two highly readable accounts. The first has the charm of a highly personalized account by a "Name," one of those whose money is at risk through Lloyd's, written in the skilled pen of Martin Mayer, and full of interesting but not always easy to follow detail. The second, by a journalist, offers deeper context and broader perspective. During the 1980s both the amount of insurance and the number and diversity of the players writing and underwriting it through Lloyd's grew rapidly. They were all caught by some bad storms, but above all by liability law in the United States, especially as it pertained to asbestos and other forms of pollution. There were many failures of judgment, as well as some bad luck, with no one taking an overview of what developed the strong flavor of a Ponzi scheme, until things went badly wrong. In the end, hallowed British institutions were unable to cope

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with the radical development of U.S. liability law. And unsupervised "self-regulation" had become untenable in a world where foreign (including American) players entered a system that had a finely honed code of ethics, and that even on its own terms permitted extensive self-dealing at the expense of the Names, provided they did not lose money.

How Many People Can the Earth Support? BY JOEL E. COHEN. New York: W. W. Norton, 1995, 416 pp. $27.50.

With the earth's population greater than 5.5 billion people and predicted to rise to 7.5 billion over the next two decades, this book's title asks a perennial question. Cohen, a population biologist at Rockefeller University, has written a book at once erudite and entertaining. It contains a wealth of material about the earth's population, resources, ecology, climate, social organization, and technology, and above all about the history of the earth's various thinkers on the subject of its carrying capacity. Cohen illustrates how this question has been asked since at least the late seventeenth century, when Leeuwenhoek, generalizing from the Netherlands, estimated that the world could support 13.4 billion people. Since then, estimates for a sustainable population have varied from less than a billion to more than a trillion. Needless to say, various estimators have had very different "models" of sustainable population in mind, and Cohen explores their usually implict assumptions about geo- and bio-physics, human needs, and society in depth. His discussion is weakest on the last count, substantially understating, for example, the capacity of foreign trade to mitigate local deficiencies and augment world output. And what is the author's answer? To reveal the conclusion would spoil the plot.

International Monetary Cooperation since Bretton Woods. BY HAROLD JAMES. New York: Oxford University Press, 1996, 742 pp. $45.00.

A fine account of international monetary affairs from the end of the Second World War to the early 1990s. The International Monetary Fund commissioned the study for its 50th anniversary and gave James access to its files and full scholarly independence, and he was also able to consult with many leading participants. The book focuses on the monetary aspects of international relations, with little attention to international trade, bilateral aid, attempts at economic coercion, and the like. It also tends to keep the IMF at center stage, although it also covers events (for example, the 1992 crisis in the European Monetary System) in which the IMF played only a minor role. The book covers the gradual change in many communist countries during the 1980s and early 1990s but only touches on the major transformation to market economies in the 1990s, which represents the most challenging assignment to date for the IMF, including the debt crises of the 1980s. A historian, James is evenhanded and does not typically take sides in the many disagreements that engaged economists and financial officials throughout the period.

The Political Economy of Trade Protection. EDITED BY ANNE O. KRUEGER. Chicago: University of Chicago Press,

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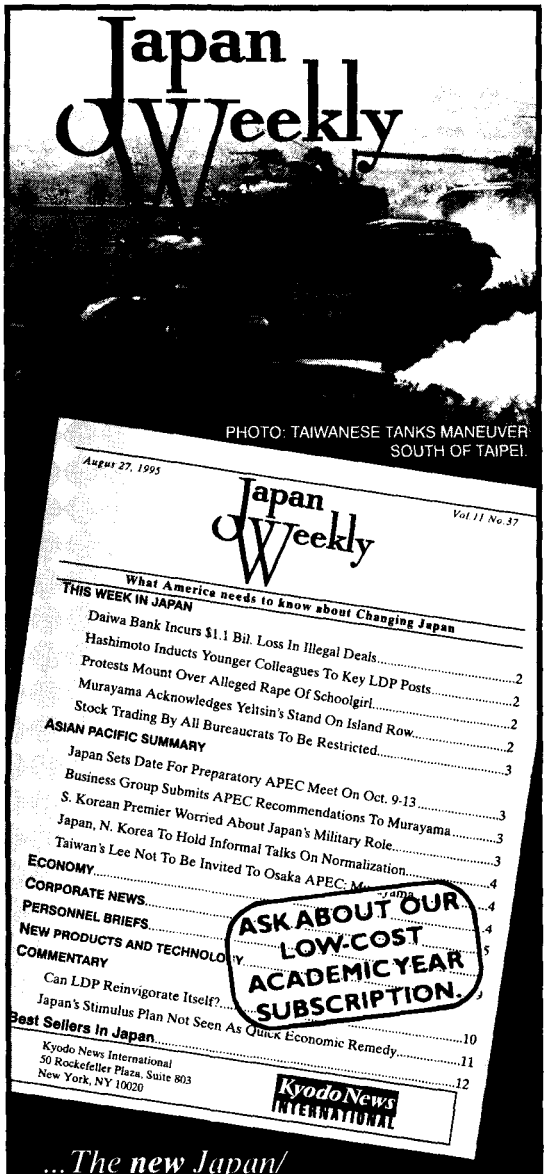
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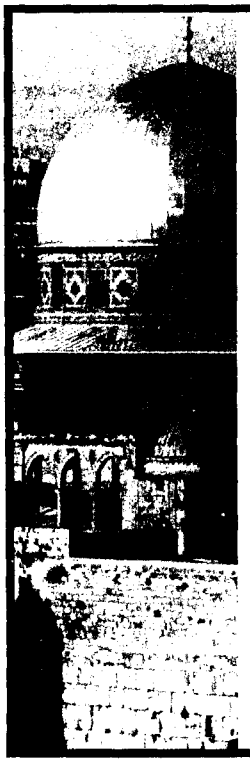

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1996, 112 pp. $24.95.

Taxing Multinational Corporations. EDITED BY MARTIN FELDSTEIN ET AL. Chicago: University of Chicago Press, 1995, 113 pp. $21.50 (paper, $17.95).

These two books offer in brief, accessible form the results of two symposia by economists interested in public policy, both sponsored by the National Bureau of Economic Research. The first is on foreign trade protection, the second on taxation of foreign corporate income. They represent an effort to bridge the gap between increasingly technical research and general readers. The Krueger volume covers trade protection sought by seven U.S. industries, including automobiles, lumber, semiconductors, steel, textiles, and wheat. It can be summarized by saying that researchers found virtually no merit in the typical argument for protection. Protection did little to achieve the stated objectives of those seeking it. Their real motivation seems to be redistribution of income from purchasers of the products—ultimately the consuming public—to the owners and managers of the protected firms. Success in getting protection depended on their skill not at innovation, production, management, or restructuring but at working the U.S. political system. The Feldstein volume is somewhat less successful in its effort to bridge the technical gap. Existing tax law is complex, and economic hypotheses about the impact of tax provisions on corporate behavior and the economy more generally are arcane, even when the authors have been enjoined from using algebraic notation.

The Genie Out of the Bottle: World Oil since 1970. BY M. A. ADELMAN. Cambridge: MIT Press, 1995, 350 pp. $45.00.

A well-known MIT specialist in oil economics, who published a book on the world petroleum market in 1972, offers a jaundiced view of U.S. policy toward OPEC over the past quarter-century. Adelman's most fundamental and least understood thesis is that oil is not an "exhaustible" resource in the sense that term is conventionally understood. The world will not "run out" of oil; rather, its price may rise to a level that will sharply reduce demand. What makes oil special is that most of the lowest-cost reserves are under political control by states that prevent competitive exploitation, which introduces instability into the oil market. He notes that OPEC members do not accept a competitive price, which would be much lower than the current price, but they do not control enough of the market or have enough cohesion to assure a higher monopolistic price. This analytical framework informs a running account, much drawn from the contemporary press, of relations between OPEC members, international oil firms, and politicians in both oil-exporting and oil-importing nations. The book is noteworthy for its attempt to quantify the costs of oil extraction in various times and places. It will have too much historical detail for some readers and suggest too much anti-Arab animus for others, but it is well-informed and analytically potent.

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Military, Scientific, and Technological

ELIOT A. COHEN

Bombing to Win: Air Power and Coercion in War. BY ROBERT A. PAPE. Ithaca: Cornell University Press, 1995, 359 pp. $49.95 (paper, $19.95).

This solidly constructed work concludes with some overly simple assertions: "Strategic bombing does not matter," "Punishment does not work," and the like. Exploring a large number of cases superficially and five cases in depth, the author builds a strenuous argument that strategic air power has never delivered on its promises and, for reasons intrinsic to strategy, cannot. An excessively narrow political science framework (and perhaps a desire to tweak the noses of true believers) has led the author further than the evidence can take him. To say that the air power used against government leaders is doomed to fail may be true, but it has never been tried with the same determination as other military means. Similarly, his hoary contention that "punishment generates more public anger against the attacker than against the target governments" glosses over a complex of popular reactions. Unsustainable assertions notwithstanding, its rigorous argumentation and skillfully assembled evidence make this a book to be reckoned with.

Why the Allies Won. BY RICHARD OVERY. New York: W. W. Norton, 1996, 396 pp. $29.95.

A sharply different view from Pape's. Overy, a professor of modern European history at the University of London, argues that "there has always seemed something fundamentally implausible about the contention of bombing's critics that dropping almost 2.5 million tons of bombs on tautly stretched industrial systems and war-weary urban populations would not seriously weaken them." The author of important books on World War II, including a biography of Hermann Goering and the best overall account of the air war, Overy has produced a broad and insightful synthesis. He contends that the outcome of the war rested less on the balance of personnel and matériel than the Allies' greater cohesion and attention to support, chiefly logistics and intelligence. In the final analysis, however, the conduct of individual campaigns mattered greatly. Deftly and convincingly, Overy reminds students of World War II that although all history is contingent, war is perhaps the most uncertain of all human activities.

Thread of the Silkworm. BY IRIS CHANG. New York: BasicBooks, 1995, 329 pp. $27.50.

Chang's book tells the fascinating biography of Tsien Hsue-shen, a brilliant Chinese scientist who played a central role in American rocket and space science during World War II and its immediate aftermath, returned to China in the 1950s, and played a central role in that country's missile programs. Chang, a journalist fluent in Chinese, has carefully tapped a wide array of sources. She is sympathetic to Tsien's travails in the darkest days of the Cold War, when because of suspicions of communist lean-

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ings he was suddenly deprived of his American security clearances. But she remains dispassionate in her description of Tsien's thorough accommodation of the monstrosities of Mao's China, down to his recent support of the Tiananmen massacre. The tale has much to say about America's openness and fearfulness in the 1940s and early 1950s, and the mood and drive of China in the grip of totalitarian rule. But this is ultimately a story of individual pride and passionate scientific inquiry. With considerable delicacy, the author reveals the price a scientist may pay for vanity when immersed in a political world he understands less than he thinks.

Lights, Camera, War: Is Media Technology Driving International Politics? BY JOHANNA NEUMAN. New York: St. Martin's Press, 1996, 320 pp. $23.95.

A former White House and diplomatic correspondent and foreign editor for *USA Today,* Neuman began this book as an exploration of the so-called CNN effect in international politics. The conventional wisdom has it that global 24-hour television has transformed international relations and drives foreign policy, much to the distress of sober practitioners of the diplomatic art. Neuman has amassed a great deal of historical material arguing that new communications technologies, from the printing press to the telegraph, photography to radio, have always elicited expressions of horror from foreign ministries. In practice, politicians quickly learn how to exploit or control new technologies, and faster news does not change the options in international relations or the content of statesmanship. Neuman acknowledges that these technologies sometimes accelerate decision-making, a concession that requires further exploration. Nonetheless, this moderate and historically informed analysis is a welcome corrective to the prevailing CNN scare.

Inside CIA's Private World: Declassified Articles from the Agency's Internal Journal, 1955-1992. EDITED BY H. BRADFORD WESTERFIELD. New Haven: Yale University Press, 1995, 489 pp. $35.00.

Perhaps the most interesting classified journal of all time is *Studies in Intelligence,* an in-house publication of the CIA. The CIA invited Westerfield, a Yale professor who is a student of the intelligence community but, unlike some of his colleagues, not a sometime participant, to cull its secret articles for publication. The result is engrossing and fascinating. The articles include some of the best treatments of intelligence issues ever written, and they reveal a great deal about the internal culture of the CIA, not all of it complimentary. Westerfield's commentary is spare, precise, and penetrating, his editorial judgment acute. With wry humor he highlights the folly of some of the CIA's pretensions while providing context for such matters as the psychology of treason and the notorious Nosenko mole investigations of the 1960s. Most major fields of intelligence—human reporting, imagery analysis, analysis, and counterespionage—are well represented, but through no fault of the editor, signal intelligence is not covered. Given the well-known secretiveness of the National Security Agency, this hole will likely remain unfilled for some time.

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When Titans Clashed: How the Red Army Stopped Hitler. BY DAVID M. GLANTZ AND JONATHAN HOUSE. Lawrence: University Press of Kansas, 1995, 414 pp. $29.95.

It is difficult to write a readable operational account of the eastern front of World War II. The scale of the campaigns, the bewildering array of forces, and the sheer vastness of the suffering make it difficult to comprehend. Until recently, moreover, the Soviet history was distorted by contemporary uses. This major advance will supplant John Erickson's two massive volumes on the war in the east, *The Road to Stalingrad* and *The Road to Berlin*, as the standard reference book for nonspecialists. Glantz, one of the foremost scholars on the eastern front, and House describe with remarkable concision how the Soviets defeated their Nazi opponents not merely by mass and sacrifice, but through skill and cunning. Particularly at the higher levels, the Red Army was operationally sophisticated, not merely large and determined.

On Infantry, revised edition. BY JOHN A. ENGLISH AND BRUCE I. GUDMUNDSSON. Westport: Praeger, 1994, 216 pp. $65.00 (paper, $18.95).

Underlying warfare on land, and perhaps warfare in general, is infantry combat—the combination of movement and fire by which armies take and hold ground. Ignored or disdained by students of strategy, the literature of battlefield tactics and organization is more important and, at its best, far more readable than generalists might think. Originally published 15 years ago, this substantially revised book conveys to a

lay audience the fundamental trends and problems in the development of this vital component of military power. Working with a prolific and skilled cowriter, the primary author, a Canadian officer, has deleted some technical material and placed this development in a wider context of military history. Although more accessible and broader in scope than the original version, the revision has been stripped of most of the diagrams and sketch maps that made its seemingly arcane military detail comprehensible. The first edition did a better job of explaining the significance of technical matters. Nonetheless, the book remains an indispensable introduction.

The United States

DAVID C. HENDRICKSON

Talking to Strangers: Improving American Diplomacy at Home and Abroad. BY MONTEAGLE STEARNS. Princeton: Princeton University Press, 1996, 201 pp. $24.95.

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An engaging and delightfully written plea for restoring the role of the professional diplomat in American foreign policy. Stearns, a career diplomat who served in the 1980s as ambassador to Greece, contends that the qualities professional diplomats bring to foreign policy—knowledge of the history and dynamics of other cultures, "intelligent skepticism," and negotiating finesse—are increasingly discounted in Washington. Stearns criticizes the micromanagement of foreign missions by an increasingly centralized State Department, rotation policies that curb "localitis" at the expense of needed expertise, and political appointments that deny opportunities to more qualified career officers. Occasionally he deploys his wit at the expense of his plausibility—"The United States may be the only remaining military superpower, but in its approach to diplomacy it too often looks like the only remaining banana republic." His focus on process conveys the impression, perhaps inadvertently, that professionalism in the diplomatic corps is not only a necessary but a sufficient condition for a balanced and effective foreign policy.

Negotiating Cooperation: The United States and China, 1969-1989. BY ROBERT S. ROSS. Stanford: Stanford University Press, 1995, 349 pp. $39.50.

A careful and rigorous examination of the factors that led the United States and China to "negotiate cooperation" from 1969 to 1989. Ross, a political scientist at Boston College, skillfully disentangles the web of considerations—above all, the common threat from the Soviet Union—that enabled negotiators to diffuse their hostility. The analysis is particularly useful for its sustained treatment of the delicate negotiations over Taiwan. It is striking how little remains today of the elements promoting concord. The collapse of the common enemy, the reemergence after the repression at Tiananmen Square of ideological hostility, the explosive growth of China's trade surplus, and the persistence of profound disagreements over Taiwan all suggest that "Mismanaging Hostility" will prove a suitable title for the analyst chronicling the deterioration of relations in the two decades after 1989. Though Ross argues that U.S.-China cooperation remains an important and attainable objective, he provides little guidance on how it might be achieved.

The Public Dimension of Foreign Policy. BY DAVID D. NEWSOM. Bloomington: Indiana University Press, 1996, 304 pp. $35.00 (paper, $16.95).

Newsom, who served in the Foreign Service for 35 years and is currently a professor at the University of Virginia, examines the interplay between government and the press and the role of think tanks, lobbies, academia, and Congress. He has interesting things to say about the pressures on State Department spokespeople—it seems a wonder, after reading this account, that they do not obfuscate more than they do—and he raises important questions about the responsibility of the press, the influence of money, and the irrelevance of academics. The latter he sees as awash in specialization and jargon, burdened by models and theories, and writing what appears to be English but is nevertheless unintelligible to English speakers. His mostly descriptive approach, though informative, is burdened with a stylistic blandness, making for a book that is digestible but not particularly appetizing.

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Threatened Peoples, Threatened Borders: World Migration and U.S. Policy. EDITED BY MICHAEL S. TEITELBAUM AND MYRON WEINER. New York: W. W. Norton, 1995, 300 pp. $25.00.

This volume, the result of an American Assembly conference in late 1994, provides a comprehensive survey of the ways in which the United States affects and is affected by world migration. Most of the contributors, who include some of the foremost authorities in the field, urge more vigorous steps to contend with the forced displacement of peoples. "The world needs to get away from the nation-state," writes former U.S. Ambassador to Yugoslavia Warren Zimmermann, "as an operating concept and as a value system." Carl Kaysen calls for U.S. leadership in building the institutions of the international community "to make plain in every way"—including, if necessary, military force—"that lawless governments that repress their own populations are not acceptable." Tom Farer urges the wealthy states to "increase exponentially material support provided directly to migrants" and to developing states willing to shelter and assimilate them. There is much here, in short, to inspire the idealist, as well as much to confirm the pessimist in his view that the chasm is widening between the agenda of liberal internationalism and the willingness of the American public to support it.

Telltale Hearts: The Origins and Impact of the Vietnam Antiwar Movement. BY ADAM GARFINKLE. New York: St. Martin's Press, 1995, 370 pp. $24.95.

A provocative and wide-ranging, if somewhat unwieldy, examination of the Vietnam antiwar movement, from its origins in traditions of dissent to its impact and continuing influence. Garfinkle, executive editor at *The National Interest*, insists that public revulsion against the "irresponsibility and willful antipatriotism" of radical protesters means that the antiwar movement cannot deserve credit for limiting and ultimately halting U.S. involvement. Garfinkle is refreshingly iconoclastic on a wide range of issues and as acerbic toward the Johnson administration as its radical critics. However, his claim that L.B.J.'s decision to reverse course might have come sooner had the antiwar movement not become radicalized is implausible. More implausible still is his claim that "it was the Nixon administration itself that elected not to take the time or spend the political capital necessary to save South Vietnam," which minimizes the responsibility, for good or ill, of the antiwar Democratic Congress for terminating U.S. involvement in Indochina. This book is unlikely to make the "telltale hearts" of tenured radicals throb with guilt, but for those who hated the war *and* the radical opposition, Garfinkle provides an often brilliant though not always convincing assessment.

Bretton Woods and Dumbarton Oaks: American Economic and Political Postwar Planning in the Summer of 1944. BY GEORG SCHILD. New York: St. Martin's Press, 1995, 254 pp. $45.00.

A solid account of the conferences that constructed the International Monetary Fund, the World Bank, and the United Nations, the institutions intended to

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foster stable currencies, freer trade, and collective security after World War II. Schild, a scholar affiliated with the University of Bonn, argues that the plans devised by officials in the Treasury and State Departments should not be viewed in isolation from these organizations. The postwar world imagined in 1944 assumed a vital partnership with the Soviet Union in keeping down the Axis powers, an assumption that entered just as much into Bretton Woods, whose architects looked toward a pastoralized Germany, as it did in planning for the United Nations. Though Schild does not compare the conferences as much as he might have, and though the work, given previous exhaustive studies of both conferences, might have been improved by a more thorough analysis of contending interpretations, the author provides a reliable and careful introduction.

Crises in U.S. Foreign Policy: An International History Reader. BY MICHAEL H. HUNT. New Haven: Yale University Press, 1995, 447 pp. $40.00 (paper, $17.00).

Hunt, a historian at North Carolina, examines seven episodes: American entry into World War I, the origins of World War II in the Pacific, the beginning of the Cold War, the Sino-American confrontation over Korea, the Cuban missile crisis, the escalation in Vietnam, and the events culminating in the Iranian hostage crisis. Two-thirds of the work is given over to primary documents, of which about half are from foreign sources. The author's introduction for each crisis is skillfully crafted and suitably quizzical; his choice of documents, reflecting his international focus, is first-rate. A superior compilation that is designed for the classroom but will fascinate the general reader and the specialist.

Western Europe

STANLEY HOFFMANN

Hitler's Willing Executioners: Ordinary Germans and the Holocaust. BY DANIEL JONAH GOLDHAGEN. New York: Alfred A. Knopf, 1996, 601 pp. $30.00.

A challenging, powerfully argued, and morally passionate account of the extermination of the Jews by Nazi Germany. Goldhagen has done prodigious research in order to find out who the "willing executioners" were and what they did. The result is overwhelming and devastating, not only because of the detailed account of the crimes, but also because the author shows that tens of thousands of ordinary Germans—not just the SS or Nazis—took part in the Holocaust, and because he systematically and convincingly dismisses such standard explanations as the habit of obedience, coercion, and group pressure. He shows that those who refused to become murderers were given the opportunity to opt out of the massacres and were not punished. The only convincing explanation is ideology: it is antisemitism that drove ordinary Germany to unspeakable murders. Goldhagen provides the reader with massive evidence of both the depth and scope of antisemitism in Nazi Germany and the degree to which it impregnated the political culture before Hitler. That part of his book is likely to be the most controversial. Goldhagen will probably be attacked for indicting a whole society. But nowhere

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does he deny that "eliminationism" became "exterminationism" because of the deliberate, systematic policies of Hitler and the Nazis, nor does he argue that every German was an eliminationist, nor does he say that a society cannot, by confronting its crimes, extirpate its worst prejudices and overcome its past. But those who believe that people are motivated only by self-interest will find his conclusion hard to accept, since it might oblige them to change their truncated view of human nature. It will not be possible to write about the Holocaust without taking into account the findings of this extraordinary book. In later works, the author may want to compare German antisemitism with that of France, Britain, or Russia to reinforce his point about its unique "eliminationist" virulence in Germany.

When Allies Differ: Anglo-American Relations During the Suez and Falkland Crises. BY LOUISE RICHARDSON. New York: St. Martin's Press, 1996, 278 pp. $45.00.

A gem, and a worthy successor to Richard Neustadt's *Alliance Politics.* The author gives not only thoroughly researched accounts of Suez and the Falklands, but also an impeccable analysis of what led to a breakdown of the Anglo-American special relationship in the first crisis and a high degree of cooperation in the second. This is political science at its best, and a sharp eye and dry wit add to the reader's pleasure. In the comedy (or tragedy) of errors that was Suez, American anticolonialism and Eisenhower's determination not to be dragged against his will into a course he did not approve, by an ally who had kept the United States in the dark, were the decisive reasons for the temporary conflict. In the Falklands, by contrast, the links between the Pentagon and the British military services, which Eisenhower had not permitted to prevail in Suez, provided the British with the support they needed. The author also emphasizes personalities: "Resolution was to be the secret of Thatcher's success; . . . Conversely, Eden's lack of resolution was to cause his downfall." This is a splendid contribution to understanding of the difficulties of alliance management, especially between states with uneven power and allies whose very closeness may breed misunderstandings and mistaken assumptions just as serious as those among states that know one another too little.

The Politics of Democratic Consolidation: Southern Europe in Comparative Perspective. EDITED BY RICHARD GUNTHER ET AL. Baltimore: Johns Hopkins University Press, 1995, 493 pp. $60.00 (paper, $17.95).

First in a series that will examine democratic transitions and consolidation in Spain, Greece, Italy, and Portugal. It is an important book not only because of its authors (in addition to editors Gunther, P. Nikiforos Diamandouros, and Hans-Jürgen Puhle are such names as Juan Linz, Alfred Stepan, Philippe Schmitter, Sidney Tarrow, and Gianfranco Pasquino), not only because of the scope of their investigations (they look at the role of parties, interest groups, the military, the institutional setup, and the international context) but also because of their careful atti-

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tude toward generalizations, the bane of much theory-driven political science. They insist on the diversity of paths to democratic consolidation, the dependence of these paths on the nature of the previous regime, and the factors that still threaten further consolidation. They also attempt to distinguish the so far relatively successful countries of southern Europe from the shakier transitions in Eastern Europe and Latin America. More stable countries, they note, carried out political reform before economic reform. There is a wealth of information here, but the outstanding merit of this volume lies in its illuminating comparative analysis.

Western Hemisphere

KENNETH MAXWELL

Political Reformism in Mexico: An Overview of Contemporary Mexican Politics. BY STEPHEN D. MORRIS. Boulder: Lynn Rienner, 1995, 261 pp. $49.95 (paper, $19.95).

Democratizing Mexico: Public Opinion and Electoral Choices. BY JORGE I. DOMINGUEZ AND JAMES A. MCCANN. Baltimore: Johns Hopkins University Press, 1996, 269 pp. $45.00.

Mexican Politics in Transition: The Breakdown of a One-party-dominant Regime. BY WAYNE A. CORNELIUS. San Diego: Center for U.S.-Mexican Studies, 1996, 122 pp. $11.95.

De Tocqueville, Morris notes, observed that "the most perilous moment for a bad government is one when it begins to mend its ways." But in Mexico, the government has been constantly engaged in mending its ways, escaping rigidities, and avoiding the perilous moment. The question is whether that makes for a better government or merely sustains a bad one indefinitely. Morris is interested in the process of reform, particularly as it was implemented during the de la Madrid and Salinas administrations. "Under a veneer of ambiguity," he argues, "successful reformism combined change with continuity." For Mexico this involved a time-limited presidency, a degree of independence between the economic and political spheres, limited pluralism, and a strong but malleable state ideology. The United States, interested above all in sustaining stability in Mexico, provided economic, political, and financial support to the regime in times of crisis and did not push vigorously for democratic change.

Dominguez and McCann's concern is with what polling data reveals about Mexican attitudes toward democracy. In this meticulous study, they find that "Mexican citizens are readier for democracy than are some of those who still seek to rule them." The attitudes of Mexican citizens have changed in important and consistent ways since the late 1950s. By the early 1990s Mexicans had become much more interested in politics, particularly compared to the citizens of advanced industrialized countries, and strongly in favor of democratization of the ruling party's presidential nomination practices. The task of aligning citizens' readiness for democracy and the institutions that would make it possible, however, remains.

Both volumes are written with fellow political scientists in mind and make few concessions to the general reader. In contrast, Wayne Cornelius, founder of the prestigious Center for U.S.-Mexican Studies at the University of California, San

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Diego, provides a short and accessible primer on the politics of the Mexican peso crisis, full of interesting information and analysis attractively presented. Yet like all these authors, he seems surprised and shaken by the meltdown of December 1994, and much less confident about the future. "In short," he concludes, "we may be witnessing the fragmentation of authoritarianism in Mexico, or the emergence of a more 'crisis prone' but still essentially stable authoritarian system." If this is indeed the question, it is a great pity that the leading analyst of Mexico in the United States does not venture to answer it.

Mexico: From Montezuma to NAFTA, Chiapas, and Beyond. BY JAIME SUCHLICKI. Washington: Brassey's, 1996, 240 pp. $21.95.

For anyone seeking a quick introduction to Mexico from the conquest of Tenochtitlán in 1519 to the troubled first year of Ernesto Zedillo's administration, a good starting place is Jaime Suchlicki's fast-paced narrative. Suchlicki, a longtime observer of Mexico and author of several important works on Cuban history, teaches at the University of Miami and edits the excellent *Journal of Interamerican and World Affairs*. While this is a book aimed at "jet set tourists" as well as "workers and peasants," and is often breathless in its rush forward over the centuries, there are some surprisingly provocative nuggets, including the suggestion that "President Zedillo may be the first Mexican president in decades to face a covert or even an open threat of a coup." A useful and lively introduction to a complex history.

Brazil: Culture and Politics in a New Industrial Powerhouse. BY RONALD M. SCHNEIDER. Boulder: Westview Press, 1996, 255 pp. $65.00 (paper, $22.95).

The Brazilian Voter: Mass Politics in Democratic Transition, 1974-1986. BY KURT VON METTENHEIM. Pittsburgh: University of Pittsburgh Press, 1995, 295 pp. $49.95.

Brazil's population of African descent, roughly 70 million, is substantially greater than that in North America, the Caribbean, or any African country save Nigeria. In contrast to his earlier writing, Schneider, who teaches at Queens College at the City University of New York, carries out a tough-minded discussion of the uneven distribution of the benefits of growth by social class, region, gender, and race. Afro-Brazilians' life expectancy is 14 years shorter than whites', infant mortality rates are 30 percent higher, and the illiteracy rate is double. He notes that blacks' "fecundity rates have not dropped as dramatically as those of [citizens of] European extraction, giving the lie to the hoary myth that racial problems in Brazil would disappear with time and 'whitening' of the population." After 35 years of experience studying Brazil, Schneider reaches the gloomy conclusion that for Afro-Brazilians, "there is almost no chance of substantially equal accomplishment no matter the combination of talent, determination, and luck." More in line with Schneider's past writing, there is also much on Brazil's current government and its persistently distant relationship with the United States, despite improved relations with its South American neighbors.

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Schneider's generation was often close to the center of power as advisers or through personal connections. More typical today is von Mettenheim of the University of Pittsburgh, who has formidable in-country experience and has observed democratization from the precinct and campaign level. Using an array of survey data and placing Brazil in the context of other recent democratic transitions, von Mettenheim argues that classic ideas such as "mandate" or "accountability" fail to describe adequately how representation works in mass democracies. Rather, voters choose on the basis of executive performance, the national issues of the day, and substantive justice. Brazil's increasingly competitive politics after 1974, especially after the return to civilian rule in 1985, rapidly educated voters, structured public opinion, and organized voter choices. Yet it also made for a political system in many ways highly demagogic and fueled by patronage. An excellent and provocative first book that makes consideration of the Brazilian political process essential to any informed debate about mass politics.

Coping with Austerity: Poverty and Inequality in Latin America. EDITED BY NORA LUSTIG. Washington: Brookings, 1995, 460 pp. $39.95 (paper, $18.95).

Jointly sponsored by the Brookings Institution and the Inter-American Dialogue, this study tackles some basic concerns about the sustainability of Latin America's current economic model of private development and public restraint. In his introductory statement, Inter-American Dialogue president Peter Hakim says bluntly that over the 1980s, "whatever progress has been made in Latin America . . . has been tarnished and jeopardized by the mass poverty and the profound inequalities of income and wealth that plague most nations of the region." These sober chapters, which contain thematic as well as country-specific studies of poverty programs, clearly substantiate his statement. The authors disagree over the compatibility of increased social spending and economic adjustment policies. Lustig points out that although poor social conditions have traditionally sparked unrest, they can also diminish growth, investment, and human capital formation. Replete with dense collections of new data, this book is written for specialists, but the overall message will come as no surprise to them. During the so-called lost decade of the 1980s, almost anything that could go wrong did. Regrettably, what is not provided are the time-series data to judge whether the neoliberal reform policies implemented in the course of the 1990s, and by implication the wave currently under way, are alleviating or aggravating these deep-seated economic disparities.

Eastern Europe and Former Soviet Republics

ROBERT LEGVOLD

Trotsky: The Eternal Revolutionary. BY DMITRI VOLKOGONOV. New York: Free Press, 1996, 524 pp. $32.50.

General Volkogonov did not live to see the English version of this biography from his remarkable trilogy. The first volume, on Stalin, was published in

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Russian in 1990; the third, on Lenin, in 1994. Volkogonov lacks the great biographer's ability to bring his subjects to life, but no matter. He is far more interested in settling accounts with the Bolshevik revolution and its sequel. Volkogonov has greater sympathy for Trotsky than for the others, rooted not in an excusal of his role in bringing about the revolution—which, based on a faulty foundation, led naturally to excess—nor in pretending that he was less given to brutality, but rather in an assumption that Trotsky was the least cynical of the three, and the observation that he was the great antagonist and ultimately a victim of Stalin, the devil himself. None of these biographies changes the historiography, but the chief value of this volume is twofold. For the Russians, Volkogonov is a Russian correcting years of lies. On the secondary issues, he has extensively mined military, party, and secret police archives to add important information. Out of this effort comes, for example, a richer portrait of Trotsky as war commissar during the civil war and a much more detailed picture of Stalin's grotesquely obsessive struggle against the exiled Trotsky.

Waking the Tempests: Ordinary Life in the New Russia. BY ELEANOR RANDOLPH. New York: Simon & Schuster, 1996, 448 pp. $25.00.

Far from the clash of politics and the confusion of economics, Randolph, a journalist for the *Los Angeles Times,* moves in the often seamy, decayed world of the average Russian. During her two years in Russia, the author did a lot of poking about. Through vivid firsthand experiences, friendships, and conversations, woven together in absorbing, sometimes darkly funny prose, Randolph describes what being in a hospital was like, how arranged-marriage shops work, what makes existence in the school of the Bolshoi Ballet anything but glamorous, how a courtroom functions, and what gives a role to faith healers, misery to homosexuals, excitement to teenagers, and, of course, opportunity to criminals. Her years in Moscow ran from 1991 to 1993, when the rot of the old reinforced the chaos and tawdriness of the new, but even so Randolph's eye seems excessively drawn to the hardest and most vulgar aspects of "ordinary life."

Anatomy of a Dictatorship: Inside the GDR, 1949-1989. BY MARY FULBROOK. New York: Oxford University Press, 1995, 307 pp. $29.95.

Fulbrook, a historian of modern Germany at University College in London, attacks the easy postmortem assessments of East Germany's regime. There are those who waved the country into history as an artificial creature of Soviet power, propped up by tyranny and obviously doomed once the puppeteer withdrew, and those who lionized a long-oppressed people and credited them with, once given half a chance, rising up and casting off their chains. The first view, Fulbrook argues, fails to explain the system's stability over nearly four decades, which few other East European regimes exhibited; nor does it do justice to the regime's own best judgment, preserved in freshly opened archives. The second view obscures the complex relationship between state and

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society, in which the great majority of East Germans, after the initial years, accepted the reality and even legitimacy of the new system and, while sullen over its daily hypocrisy and shortcomings, hardly chafed to overthrow it. However, Fulbrook argues, the alternative notion—that popular conformity in the GDR reflected some inherent German tendency to respect and yield to authority—has no more merit. For beneath the society's basic stability lurked a readiness to prod and test the boundaries of the state.

What destroyed the GDR, she contends, was reform—not a German Gorbachev above, but opposition groups below that sought to exploit the regime's weakening will in order to seek liberalization of the system. Though measured and subtle, the analysis fails to explain why the East German voter, when presented with the opportunity, swept away not only the regime but also its well-meaning liberal reformers.

Post-Soviet Puzzles: Mapping the Political Economy of the Former Soviet Union, 4 vols. EDITED BY KLAUS SEGBERS AND STEPHAN DE SPIEGELEIRE. Baden-Baden: Nomos, 1995, 1726 pp. $98.00.

This massive four-volume study, shepherded to completion by two scholars at the German Foundation for Science and Politics, is a fine-grained exploration of Russia, Ukraine, and Belarus. It is not a review of what has happened, nor is it an effort to assess where these societies stand in their historic passage from one way of life to another. Rather, it focuses on which groups—economic, social, political, and foreign—are important for what reasons, on the evolution of elites, and on the dynamics of subnational and regional units. With the exception of the project directors, nearly all the 50-plus contributors are from the above three countries. All of them—geographers, economists, sociologists, neophyte political scientists, mostly young, mostly Russian—are dedicated to in-depth research and modern social science. The results are occasionally curious and amateurish, and the enterprise lacks a compelling integrative framework, but these weaknesses are more than offset by the immense quantity and systematic presentation of important information, accompanied by bright, arresting inside insights.

Modern Tsars and Princes: The Struggle for Hegemony in Russia. BY JEREMY LESTER. New York: Verso, 1995, 320 pp. $18.95.

"Hegemony" here is used in the sense that Antonio Gramsci, the Italian communist, described. Lester's appropriation of it reminds one that the social science concepts dominant in most Western universities are not the only ones students of Russia can adopt in trying to keep their feet. Gramsci was not preoccupied with the social contract of post-Enlightenment democratic theorists, nor did he have much time for taming power through civil institutions. He thought society always came under the domination of a "historical bloc," a transcendent cultural force able to draw civil institutions and the state to its purposes.

Lester writes about the three forces in Russia competing to become the next *blocco stòrico.* The Westernizers are united only by their sense of inferiority toward the West and are now said to be dominated largely by those devoted to

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private property and rugged individualism. The Russophiles, including communist presidential candidate Gennadi Zyuganov, are bent on finding salvation for Russia in the mists of its history. The centrists would split the difference but lean toward the Russophiles. To Lester's regret, a fourth contender, a democratic socialist left, is missing, although he devotes a chapter to the smattering of would-be protagonists. The author's approach leads to an interesting and often insightful classification of the forces slowly precipitating in Russia, but Gramsci and therefore Lester are no better than Marx or any other Western futurologist for predicting which will triumph.

Middle East

WILLIAM B. QUANDT

America and the Persian Gulf: The Third Party Dimension in World Politics. BY STEVE A. YETIV. Westport: Praeger, 1995, 180 pp. $49.95.

Since the Iranian Revolution, those who have initiated the use of force in the Persian Gulf region have not fared well. The Soviets were unsuccessful in Afghanistan, Iraq failed in its 1980 offensive against Iran, and Iran failed to topple the regime of Saddam Hussein. Contrary to the preferences of each of these parties, it was the United States, according to the author, that enhanced its security. The key to American success was skillful exploitation of its third-party role, reacting to the openings provided by the moves of others in the region. Yetiv believes that the United States now must avoid becoming too directly involved in gulf security and would do best to return to a balance-of-power strategy rather than attempting dual containment of Iran and Iraq. Many of these points are sensible, but they need more development and less theory.

Egypt from Monarchy to Republic: A Reassessment of Revolution and Change. EDITED BY SHIMON SHAMIR. Boulder: Westview Press, 1995, 352 pp. $59.95.

With the passage of time it becomes more difficult to argue that the 1952 revolution in Egypt was much of a revolution after all. As de Tocqueville noted, social and cultural continuities survive political upheavals, so one should not be surprised to find many features of the prerevolutionary period in present-day Egypt. This is not to say that nothing of consequence happened during Gamal Abdel Nasser's reign. Certain things did change, especially concerning landholding, the distribution of income, and the role of the state in the economy. Those legacies are not so easily swept away, despite a policy of economic liberalization and the return of a semi-liberal political order, combined with an Islamic revival (all rather reminiscent of the 1930s). These are the themes with which the authors of this excellent volume grapple. Unfortunately, no Egyptian scholars are represented alongside the Israelis, Americans, and Europeans.

Refugees unto the Third Generation: U.N. Aid to Palestinians. BY BENJAMIN N.

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SCHIFF. Syracuse: Syracuse University Press, 1995, 337 pp. $49.95.

The debate surrounding the United Nations Relief and Works Agency for Palestine Refugees in the Near East, created in 1950, sounds a bit like the debate over welfare in the United States. Some believe UNRWA has created a culture of dependency, aggravating the serious humanitarian problem it was designed to ameliorate. Others maintain that it is responsible for a substantial improvement in Palestinians' quality of life. UNRWA was never intended to last as long as it has. The reason for its longevity, of course, is the failure of the nations and factions involved to resolve the status of Palestinian refugees, now in their third generation. On balance, the author sees UNRWA as having adapted fairly well to the multiple pressures from donors and clients, Israeli and Arab; by now no one wants to see it disappear. Schiff analyzes the ways in which UNRWA has had to adjust to a very difficult environment, and he envisages a time when the agency may be part of a Palestinian state rather than the United Nations, yet still concerned with welfare and education.

Qadhafi's Libya, 1969–1994. EDITED BY DIRK VANDEWALLE. New York: St. Martin's Press, 1995, 256 pp. $49.95.

American politicians are quick to label Libya a backlash state, but few know much about how its curious political system works. Colonel Muammar Qadhafi has experimented on the country that he has ruled since 1969, trying to create a state without institutions, a state of the masses. Fortunately for him, oil revenues have allowed a wide margin for error and inefficiency. This excellent collection of essays presents the fullest portrait to date of modern Libya and leaves one with the sense that the Libyan people have paid a high price for their eccentric leader. The system is unlikely to outlive him, but no one can be sure what will follow. One should note that Qadhafi, who fancies himself something of a prophet, is strongly opposed by Islamists. For this reason, some regimes in the region prefer him to what they fear will be the alternative.

Iraq's Crime of Genocide: The Anfal Campaign against the Kurds. BY HUMAN RIGHTS WATCH/MIDDLE EAST. New Haven: Yale University Press, 1995, 373 pp. $35.00.

Following the 1991 Kurdish uprising against Saddam Hussein's repressive rule, the Kurds captured literally tons of documents from the files of the Iraqi security services. Like other dictators, Saddam apparently insisted that his minions record their crimes. As a result, the world now has conclusive evidence that in 1988 Iraq used chemical weapons on its own citizens, and very strong indications of an extermination campaign that may have cost the lives of at least 50,000 Kurds. Human Rights Watch has not only analyzed the captured documents but has conducted extensive interviews with eyewitnesses, where possible matching their testimony with the written accounts from the archives. The result is a horrifying picture of Saddam's regime.

Image and Reality of the Israel-Palestine Conflict. BY NORMAN G. FINKELSTEIN. New York: Verso, 1995, 243 pp. $34.95 (paper, $18.95).

The prospects for war between Israel and the Arab nations may be fading, but the

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war of the historians rages on. For some years, revisionists have been dismantling Israeli and Arab myths created in the formative years of the conflict. Now, as in this book, the revisionists themselves are under attack for not going far enough. Finkelstein already has one victory to his credit. Along with a few other conscientious scholars, he demonstrated that Joan Peters' book *From Time Immemorial,* which claimed that Palestinians arrived in Palestine only recently, was based on shoddy scholarship. That landmark essay is included in this collection and is the best of his offerings. More controversially, Finkelstein tackles Benny Morris, author of an important account of the origins of the Palestinian refugee exodus. Here he praises much of Morris' empirical research but rejects the conclusion that the exodus was born of war rather than a master plan. All this is bound to be a bit confusing to readers new to the historiography of the Arab-Israeli conflict, but for those well versed in the debates and the literature, this thoroughly documented book is guaranteed to stimulate and provoke. It will be required reading in the continuing war of the historians.

The Middle East Economy: Decline and Recovery: Selected Essays by Charles Issawi. EDITED BY BERNARD LEWIS AND HEATH W. LOWRY. Princeton: Marcus Wiener Publishers, 1995, 239 pp. $34.95 (paper, $16.95).

Why did the Middle East, a region that once outstripped Europe in economic development, fall so far behind after the mid-fifteenth century? If this type of broad historical question intrigues you, Issawi's collection of previously published essays will be a delight. Gracefully written, filled with historical insight, and accompanied by fine photographs, these chapters are a pleasure to read. The most contemporary deal with the adaptation of Islam to economic realities, the oil crisis of 1973, and a revealing comparison of the Balkans and the Middle East. Of particular interest is the author's explanation for the change in standing among Egypt, Iran, and Turkey over the past two centuries.

Les islamistes algeriennes: entre les urnes et le maquis. BY SEVERINE LABAT. Paris: Editions du Seuil, 1995, 344 pp. $26.00.

Algeria is the only Arab country in which Islamists have nearly succeeded in coming to power through democratic elections. For many observers, the crisis has raised the question whether a nondemocratic movement should ever be permitted by law to gain power. Some draw a comparison to Hitler. To answer, one needs to understand the Islamist opposition in Algeria. This is the first fully researched account, primarily of the Islamic Salvation Front (FIS), and is based on detailed interviews. The author finds that the Islamists arose out of conditions unique to Algeria, gaining a popular following when the economic and political crises of the mid-1980s hit the first post-independence generation just as it was entering the labor force. The author identifies several factions of the movement, the most important of which were the technocrats and the theocrats. The former seem prepared to work toward their

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goal of an Islamic state without resorting to violence, whereas the latter are more ambivalent about the rules of the game. When the military-backed regime interfered in 1992 to deprive the FIS of its electoral victory, a portion of the Islamist movement took up arms, while others retired from the political scene or were imprisoned. Over the past four years there has been a radicalization of political life, and today the FIS can no longer pretend to speak for all the Islamist factions, especially the radical armed groups.

The author is best when she is discussing the Islamist players, their relations with one another, and their political histories. The regime itself does not play a large part in her story, and her analysis may be betting too heavily on the ability of the Islamist moderates eventually to strike a compromise with the military. Still, this is by far the best account of the Islamist rise available, and it is essential for anyone who hopes to understand where the FIS and its descendants may fit into Algerian politics.

Practical Peacemaking in the Middle East, 2 vols. EDITED BY STEVEN L. SPIEGEL AND DAVID J. PERVIN. New York: Garland Publishing, 1995, 262 and 403 pp. $38.00 and $62.00.

Israeli-Palestinian Security: Issues in the Permanent Status Negotiations. BY JEFFREY BOUTWELL AND EVERETT MENDELSOHN. Cambridge: American Academy of Arts and Sciences, 1995, 124 pp. $10.00 (paper).

As part of the negotiating process begun in Madrid in October 1991, Arabs and Israelis, along with representatives of many other countries, have been pursuing a track of multilateral diplomacy that deals with practical issues such as arms control, water, economic cooperation, and so forth. The Spiegel and Pervin volumes are based on papers tackling these issues that were presented at a conference in 1993 and reflect a wide variety of views, many those of Israeli and Arab authors. If the diplomats ever succeed in hammering out an acceptable political framework for peaceful coexistence, these matters and others will need to be addressed. There is little reason to believe, however, that much progress can be made in the absence of a political breakthrough.

The slim volume from the American Academy of Arts and Sciences is of special interest because it summarizes lengthy discussions between some of the leading strategic thinkers on Israeli-Palestinian matters, including Israelis and PLO members, before Oslo made such contacts commonplace. Subjects such as the status of Jerusalem, settlements, and unconventional weapons are discussed here, and a number of original ideas are put forward. For value per page, a good volume to consult.

Asia and the Pacific

DONALD ZAGORIA

Weaving the Net: Conditional Engagement with China. EDITED BY JAMES SHINN. New York: Council on Foreign Relations Press, 1996, 284 pp. $19.95 (paper).

A well-reasoned argument for advancing American interests in Asia and a substantial contribution to the debate on China. The volume calls for "conditional engagement" and identifies ten guiding

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principles; for example, peaceful resolution of territorial disputes, freedom of navigation, and transparency of military forces. There are several thoughtful essays by American and Asian scholars and a variety of sound advice.

Still, one is left with many doubts about whether a shiny new set of principles will somehow resolve the problems between the United States and China. First, by their very nature, the principles are subject to divergent interpretations. China regards its sovereignty over Taiwan as a matter of principle and refuses to renounce the right to use force against a part of it own territory. Taiwan asserts another common principle: the right of self-determination. Finally, and perhaps most important, powerful domestic forces are at work in both China and the United States that are determined to demonize the other side.

Arming Japan: Defense Production, Alliance Politics, and the Postwar Search for Autonomy. BY MICHAEL J. GREEN. New York: Columbia University Press, 1995, 206 pp. $45.00.

With the end of the Cold War, the tension between Japan's urge for independence and its need for alliance with the United States has grown. No other author has captured this dilemma as trenchantly and readably as Michael Green in this book about Japan's postwar search for an autonomous defense industry, or *kokusanka.* Green shows how Japan sought to develop its own defense but soon found it impracticable. The prospects for achieving technological autonomy have been decreasing rapidly in recent decades due to the intertwining of national economies. Japan's desire to play a larger political role in Asia led to a renewed appreciation of the link between Japan's freedom of action and close security ties with the United States, which techno-nationalist confrontation might disrupt. Finally, the consensus within Japan on expanded roles and missions for the Self-Defense Forces was also premised on close alliance with the United States. This discovery, says Green, has not led to an abandonment of the goal of autonomy but to a recalculation of what it means. The Japanese have found that a robust weapons program increases Japan's value to the United States and empowers it within the alliance. He concludes with some important lessons for both countries. Technology need not be divisive, and the possibilities for bilateral technological collaboration are vast. There are great potential benefits to be had from joint development and mutual transfer of defense technology, and the countries' combined strengths can be harnessed in areas ranging from contending with nuclear proliferation to improving energy resources and the environment.

United States–Japan Relations and International Institutions after the Cold War. EDITED BY PETER GOUREVITCH, TAKASHI INOGUCHI, AND COURTNEY PURRINGTON. San Diego: University of California, San Diego, 1995, 390 pp. $5.00 (paper).

Like most conference volumes, this book is uneven in quality, but it has an impressive density of ideas. Peter Cowhey's thoughtful discussion of the U.S.-Japanese

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trade rivalry shows why the countries have different preferences. The United States prefers deeper integration and formal rules, and its major challenge is squaring the bilateralism sometimes required to promote deeper integration with the multilateralism that best reconciles its diverse global interests. Takashi Inoguchi's insightful essay discusses "contrasting conceptions" of human rights in the Asia-Pacific and the United States. Jitsuo Tsuchiyama skillfully utilizes international relations theory to explain the alliance's origins and the reasons it is likely to continue.

India and the Bomb: Public Opinion and Nuclear Options. EDITED BY DAVID CORTRIGHT AND AMITABH MATTOO. Indiana: University of Notre Dame Press, 1996, 160 pp. $29.95 (paper, $18.95).

An intriguing study of what the Indian elite thinks about nuclear weapons. The data are taken from a specially commissioned survey by one of India's leading market research companies and analyzed by several American and Indian defense specialists. The survey divides respondents into supporters of renunciation, acquisition, or the Indian government policy of ambiguity, neither renouncing nuclear weapons nor acquiring them. The survey found substantial support for current government policy. Some 57 percent of those polled favored New Delhi's policy of neither confirming nor denying a de facto nuclear capability. Some 33 percent favored outright acquisition and only 8 percent supported renunciation. There are also informative chapters on the pros and cons of India's four major nuclear policy options—the above three, along with a freeze on current production.

Megatrends Asia: Eight Asian Megatrends That Are Reshaping Our World. BY JOHN NAISBITT. New York: Simon & Schuster, 1996, 298 pp. $24.00.

Another in the now common genre of flashy books on how Asia is set to rival and overtake the West in power and influence in the 21st century. What is missing is any mention, let alone appreciation, of Asian power rivalries and mutual suspicions. If these were taken into account, a more nuanced picture might emerge. Also left out is the verdict of respectable economists such as Paul Krugman who doubt whether the present high growth rates of Asian economies can be sustained.

Corazon Aquino and the Brushfire Revolution. BY ROBERT H. REID AND EILEEN GUERRERO. Baton Rouge: Louisiana State University Press, 1995, 260 pp. $29.95.

A balanced and thoughtful analysis of the Philippines in the years since the fall of Marcos is very much needed. Unfortunately, this journalistic account is not it. It is almost entirely lacking in analysis, and it is excessively harsh on Aquino's presidency.

Africa

GAIL M. GERHART

The Rwanda Crisis: History of a Genocide. BY GÉRARD PRUNIER. New York: Columbia University Press, 1995, 389 pp. $29.95.

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Rwanda: Death, Despair, and Defiance, revised edition. London: African Rights, 1995, 1201 pp. $40.00 (paper).

Rwanda Not So Innocent: When Women Become Killers. London: African Rights, 1995, 255 pp. $40.00 (paper, $13.95).

Rwanda and Genocide in the Twentieth Century. BY ALAIN DESTEXHE. New York: New York University Press, 1995, 102 pp. $19.95.

These books lay bare the grisly events and complex causes of the orchestrated slaughter of Rwanda's Tutsis, which took place over the three-month period beginning April 6, 1994. All broadly concur on the fundamental dynamic of and responsibility for the genocide and the urgent need to bring its perpetrators to justice. Prunier, a French political analyst, has produced the most thorough treatment of the background to the massacres, which left an estimated 800,000 dead and led 30 percent of Rwanda's population to flee to neighboring states. He presents his balanced and painstaking research with clarity and skill, and he shows how the ideological, political, and economic components of Rwanda's human time bomb slowly assembled, and how an elite group of extremists within the Hutu-dominated Rwandan government, who feared that power might slip from their hands, detonated the bomb. A former consultant to the Mitterrand government, Prunier is particularly well informed on the shameful role of the French in helping create the conditions that led to the 1994 explosion.

The two reports by African Rights, a London-based human rights group, go prefecture by prefecture and institution by institution, presenting eyewitness accounts of the genocide, including the systematic elimination of moderate Hutu opponents of Juvénal Habyarimana's autocratic regime. Administrative and military personnel commanded thousands of Hutu peasants to participate in the massacres, and driven by fear, the power of Rwanda's authoritarian traditions, and sometimes greed, thousands did. Harder to explain—although Prunier and African Rights try—is the willing participation of many educated Hutu, including teachers, doctors, priests, and nuns. The reports name hundreds of alleged killers and the higher authorities who commanded them.

Destexhe, a former secretary general of the French charity Médecins sans Frontières, has a narrower focus. He argues that because the Rwandan massacres fully fit the accepted definition of genocide, the United Nations and the countries that were in a position to intervene, notably the United States, Belgium, and France, grossly violated international law. After standing on the sidelines while the holocaust proceeded, these countries rushed to provide humanitarian aid for the perpetrators as they retreated before the Tutsi-led Rwandan Patriotic Front, herding their hapless peasant accomplices before them into refugee camps in Zaire and Tanzania in preparation for a military comeback. While compassion provided a fig leaf for the immorality of realpolitik, the author says, Africa and the world saw "Never Again!" exposed as a slogan, not a promise.

Corruption, Democracy, and Human Rights in East and Central Africa. EDITED BY AYODELE ADERINWALE.

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Abeokuta: Africa Leadership Forum, 1995, 167 pp. $20.00 (paper).

Among the major industrialized nations, the United States alone forbids bribes by businesses seeking foreign contracts. Elsewhere a culture of silence has tended to prevail, with some countries even permitting businesses to claim bribes as tax deductions. In Africa, where it is hard to find a government untainted by high-level "grand" corruption, the salting away of illicit payments and the willful misinvestment of capital in crooked and nonproductive schemes contribute to sagging growth and burgeoning debt. In recent years progressive leaders in Africa have begun taking this problem seriously and, in cooperation with Transparency International, a Berlin-based nongovernmental organization established in 1993, they are demanding action to end corrupt business practices in both North and South. The poor editing of this report should not detract from its importance as a call for reform.

A Life. BY MAMPHELA RAMPHELE. Cape Town: David Philip, 1995, 224 pp. $16.85 (paper).

Ramphele, recently appointed vice chancellor of South Africa's top-ranked University of Cape Town, is one of the most remarkable figures to emerge in a leadership role in the country's post-apartheid transition. Young South Africans will find inspiration in this frank and fascinating autobiography for generations to come. In the meantime many of Ramphele's contemporaries will also have an opportunity to profit from her acute observations on personal, political, and institutional transformation.

The Eritrean Struggle for Independence: Domination, Resistance, Nationalism, 1941-1993. BY RUTH IYOB. New York: Cambridge University Press, 1995, 214 pp. $49.95.

A straightforward, competent account of the development and eventual triumph of the Eritrean independence movement. The author first considers the global and regional context of the conflict, which enabled Ethiopia to exploit African and Western fears of instability for many years and to ensure that the principle of territorial integrity would always trump the right of peoples to self-determination. She casts these contradictions within a Foucaultian framework in which Ethiopia's "regime of truth" legitimated its imperial designs in the eyes of the Organization of African Unity, the United Nations, and the Western powers. Once the Soviet-backed regime of Mengistu Haile Mariam superseded imperial rule after 1974, she argues, "the orchestra changed, but the music remained the same" until the end of the Cold War brought Mengistu's collapse. The book's second half presents a concise history of the various Eritrean liberation movements, emphasizing the remarkable evolution of the Eritrean People's Liberation Front into a politically and militarily effective force. A useful companion to Dan Connell's vivid on-the-ground chronicle, *Against All Odds.*

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Response

The Cuban Illusion

Keeping the Heat on Castro

Susan Kaufman Purcell

Wayne S. Smith compares Fidel Castro's Cuba to Francisco Franco's Spain to argue that engagement, rather than isolation, is the best way to promote Cuba's peaceful transition to democracy and a market economy ("Cuba's Long Reform," March/April 1996). The analogy is clever but wrong. Since the termination of Soviet aid to Cuba, the U.S. embargo on the island has been the key, often-ignored element pushing Castro toward economic and political reform. Lifting the embargo, as Smith suggests, would ease the pressure on Castro and allow him to avoid difficult choices, tighten his grip on power, and halt liberalization.

Franco was, and Castro is, a Spanish-speaking dictator, but the similarities end there. Castro wields virtually absolute political power on the island, and today's Cuba has no private business sector of any significance. In contrast, Franco never obliterated the distinction between public and private life, permitting Spanish interest groups limited autonomy. Cuba is also far more militarized than was Spain under Franco.

These differences have implications for U.S. policy toward Cuba. In Spain, nongovernmental groups could benefit from the country's commerce with other nations. Trade increased the wealth and clout of the private commercial sector, facilitated contacts with democratic societies, and strengthened civil society against the state. In contrast, Castro has pursued only limited economic reform, and his regime, rather than the Cuban people, would be the big winner from looser U.S. restrictions. Cuba's economy discriminates against its own citizens, who are forbidden to invest. Foreign capital is allowed in only a few sectors of the economy, and private investment in agriculture

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is unknown. The more relevant analogy for U.S. Cuba policy is Vietnam; Washington relaxed its sanctions against that communist dictatorship only after its economic reform had advanced considerably.

THE FUTURE ISN'T SWEET

Smith implies that the U.S. embargo is irrelevant to continued Cuban economic reform. He correctly attributes liberalization to the dissolution of the Soviet empire and Cuba's resulting need for foreign investment. He seems to believe, however, that the $5 billion in foreign investment that has supposedly entered Cuba over the past few years (according to the U.S.-Cuba Trade and Economic Council, only one-tenth of the promised investment has so far materialized) represents a trend that will continue to gain momentum, even if the embargo remains in place.

Smith glosses over two important links between the embargo and much of the foreign interest in Cuba. First, the embargo enables foreigners to invest in a market in which they do not have to compete against U.S. companies. Since Cuba is desperate for hard currency and the embargo sharply reduces the number of interested investors, they can secure extremely favorable terms. Second, and more important, most foreign companies that invest in Cuba have done so with the expectation that the U.S. embargo will be lifted after the upcoming presidential election, particularly if President Clinton wins a second term, causing the value of their investments to increase substantially.

The incident in February in which Cuban fighter planes downed two unarmed civilian aircraft from the exile group Brothers to the Rescue will alter these calculations. In the wake of this politically charged episode, President Clinton agreed to sign the so-called Helms-Burton Act, which gives Congress the power to lift the embargo, previously subject only to the president's decision. The act substantially reduces the probability that the restrictions on trade with Cuba will be eased in the near future, regardless of who triumphs in November. Absent additional economic reforms, the flow of foreign capital into Cuba will slow considerably. Smith wrote his article before these events occurred, but his failure to recognize the connection between the U.S. embargo and the rush of foreign companies to Cuba will soon become apparent.

Smith accepts the assertions of Cuban government officials that the country's economy has bottomed out; he reports that 1995 saw the economy grow over 2.5 percent and that the rate is expected to double in 1996. But the Cuban economy has probably not reached its nadir. The statistics Smith cites reflect the extraordinarily high prices commodity exports fetched in 1995. Projections for 1996 for sugar and nickel, Cuba's largest exports, are less sanguine. The extraordinary growth in tourism is also misleading. Last year 800,000 tourists visited Cuba, and the country took in an impressive $1 billion. Smith does not mention, however, that the government used a large share of this money to finance imports needed to sustain the tourism industry. Large-scale corruption in the sector further reduced Cuba's overall profits to a mere $250 million for 1995.

Cuba's future rides on sugar, still the country's most important export, and the continued decline in sugar production does not bode well for the economy. The 1994-95 harvest, which totaled 3.3 million

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tons, was the smallest in 50 years. Cuba borrowed about $150 million from foreign banks to finance the current harvest. Analysts believe this year's harvest must exceed 4.2 million tons if Cuba is to repay these loans. But Cuba's sugar mills, agricultural machinery, and transport vehicles are deteriorating, and it lacks the hard currency needed to purchase fuel and fertilizer. A yield that large is far from assured. Since much of the sugar harvest is reserved for barter for Russian oil, a smaller crop means that Cuba will have little surplus to export. Continuing problems in the sugar industry, therefore, also call into question Smith's conclusion that "Cuba's energy crisis appears to be on the way to a solution."

BLESSINGS OF THE EMBARGO

Smith's vision of a peaceful Cuban transition to democracy and a market economy, of Castro enacting increasingly deep economic reforms that would in turn oblige him to open the political system, may not be a fantasy. But he is wrong to view the embargo as an obstacle to that end. Castro, who has repeatedly made clear his contempt for capitalism, began economic reform only after the Soviet Union's collapse deprived the island of the estimated $3 billion to $6 billion in aid and subsidies it had received annually for several decades. Cuba had been particularly dependent on heavily subsidized Soviet energy, and Castro needed hard currency to buy oil at market prices. The embargo prevented him from taking the easy way out—luring tourists and foreign investment from Cuba's natural market and best source of foreign capital, the United States. His only alternative was to entice capital from less interested and more distant sources. The economic reforms of the past three years were the only available solution to his problem.

Despite Smith's claims, the reforms have not given individual Cubans much access to capital and property and are, therefore, still reversible. Castro's goal, after all, is to accumulate as much hard currency as possible without relinquishing his control over the Cuban people. The recent tightening of the embargo all but ensures that deeper economic reforms will be forthcoming during the next few years—not because Fidel Castro has embraced Adam Smith but because he has no other choice. Had the Brothers to the Rescue incident not occurred, the embargo might very well have been lifted after the U.S. presidential contest, and Cuba's access to significant amounts of hard currency would then have offset the loss of Soviet aid, allowing Castro to open the country's economic system in ways that would preserve the political status quo.

Finally, Smith raises the possibility that Castro will attempt to force the United States' hand on the embargo by repeating his 1994 strategy of threatening America with a refugee crisis. As long as Castro continues to control Cuba, however, the United States will be susceptible to his periodic decisions to divert attention from Cuba's internal problems by opening the emigration spigot. The best solution is democracy and an open economy in Cuba. And the best way to achieve those ends is to keep the embargo strong.

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Response

The Mark of Bosnia

Boutros-Ghali's Reign of Indifference

Fouad Ajami

"I wondered if the train I was on was that of the United Nations or the League of Nations," said Tadeusz Mazowiecki, a former prime minister of Poland, when he resigned in protest in 1995 from his assignment as the U.N. special rapporteur on human rights in the former Yugoslavia. "I want to make the leaders of the United Nations think," declared the decent man who walked away from the spin and the complacency and evasions of the United Nations' Bosnia policy. Boutros Boutros-Ghali's essay proves that the world body and its leader have yet to face up to what they have wrought in Bosnia ("Global Leadership After the Cold War," March/April 1996).

Readers of Boutros-Ghali's piece will, of course, have understood its purpose. It is the clearest statement yet of his bid for a second term as secretary-general, the rationale for his quiet but relentless campaign, which has been in the works for some time. (The secretary-general, born in 1922, had said that because of his age, one term would suffice, but that was the promise of his first term.) As a campaign statement, his piece is remarkably transparent, even embarrassingly honest. Begone the restraints of the faceless international civil service, and begone those acronyms of international organizations. The pronoun "I" appears 24 times in the essay. All is well in the realm. The books have been balanced, the organization "streamlined" and "rationalized." The international conferences held during his tenure have been "new and different"; they have been "cumulative"; they have been "linked." U.N. peacekeeping has been exemplary. Boutros-Ghali has endured slings and arrows and

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has at times suffered as the scapegoat for the failures of member states, but he has labored on for the causes of an international civil service and an independent secretary-general.

One will look in vain for a single reference to Bosnia. (There is a passing reference to war crimes tribunals for Yugoslavia and Rwanda.) Bosnia was never permitted to break into last year's celebration of the 50th anniversary of the United Nations and all the self-congratulations that went with it. And Bosnia is not to break into Boutros Boutros-Ghali's narrative of his years at the world organization's helm.

REUTERS/ARCHIVE PHOTOS

Secretary-General Boutros Boutros-Ghali defends U.N. peacekeeping in January 1995.

AN INCONVENIENT TRAGEDY

The truth of the United Nations' role in Bosnia cannot be wished away. Bosnia clings to this secretary-general. Read between the lines in his piece, and Bosnia rises like an apparition: "Lives lost in one place seem to matter more than lives lost in another. War in one country may get enormous attention, while war elsewhere may be virtually ignored. Violations of the rights of one people arouse far more concern than violations of the rights of another." All along, the Bosnians and their cause were a great irritation to this secretary-general. The Bosnians refused to do him the favor of a quiet surrender. Grant Boutros-Ghali the virtue of consistency: from the time he dismissed Bosnia as a "rich people's war," compared with the "orphan conflicts" he cares so much about, he showed the Bosnians a steady measure of indifference. They stood in the way of his stewardship of the world body, of the new, exalted language he had begun to peddle about a world outgrowing the nation-state and the rules of the Westphalian system.

The secretary-general uttered more revealing words in his memorable visit to Sarajevo on December 31, 1992. This time no handlers or blue books were present to extol the virtues of his leadership, to sanitize his words and sentiments. "You have a

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situation which is better than ten other places all over the world. I can give you a list of ten places where you have more problems than in Sarajevo," the secretary-general told the people of the besieged city. The wrath and the outrage with which he was greeted on the streets of Sarajevo ought to have shaken his complacency. But while the horrors of Srebrenica continued unabated, the secretary-general pressed on with a scheduled visit to Africa. Astonishing the reporters with him who thought the ordeal of that U.N. "safe haven" was a more pressing concern, he said Srebrenica was but a "village in Europe." The secretary-general has a broader mandate; other causes and other burning grounds lay claim to his attention, particularly the orphan conflicts that are his special domain. The Africa tour was a campaign swing, the misery of Africa held up as a counter to the Balkans' horrors.

The moral indifference and callousness of the secretary-general was contagious. He passed it down the line to his representatives on the scene, to the commanders of his peacekeeping forces. That complacency was the signature of Yasushi Akashi, his special representative to the former Yugoslavia until October 1995, who baffled even the most jaded observers with his reluctance to give name to the horrors around him, to draw distinctions between the aggressors and their victims. And this same obtuseness shaped the discourse of U.N. commanders Major General Lewis W. MacKenzie and Lieutenant General Sir Michael Rose. These two men, in particular, did all they could to foster the view that the Bosnian conflict was an ethnic brawl among three equally dreaded parties. For MacKenzie, the Serbs, the Croats, and the Bosnians were "three serial killers," distinguished only by the number of murders each had committed. For Rose, the Bosnian Muslims were tricksters who shelled their own people, cowards trying to get the United Nations to fight their fight. These men and their legacies are part of what the secretary-general did and sanctioned in Bosnia.

WITHOUT A COMPASS

Boutros-Ghali's and the United Nations' record in Bosnia was given a devastating assessment by David Rieff in *The New Republic* (February 12, 1996). There, with great clarity, is an autopsy of what was done and what was dodged in Bosnia. Boutros-Ghali provided cover for the great powers and their abdication of responsibility. He railed against them—the French, the British, the Americans—when he felt that they had been unfair to him, that he had been left twisting in the wind, that he had been provided with insufficient muscle to fulfill his mandate. Everyone knows that the United Nations commands no military divisions. But in Bosnia this secretary-general forfeited the organization's principal asset: its moral standing to speak out on the great issues of the day. Boutros-Ghali never could find his compass in Bosnia, and his failure went hand in hand with pretensions about the dawn of a new age for the United Nations. Leadership in the aftermath of the Cold War indeed.

The secretary-general's words take one's breath away: "I am like a doctor. I diagnose the patient and make certain recommendations for his cure. But if he does not follow my advice, it is hardly my fault." Can we afford five more years of the same doctor and the same cure?

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Letters to the Editor

Jeffrey G. Madrick, David F. Gordon, Per Pinstrup-Andersen, Ira Wolf, and others

PIVOTAL MISTAKES

To the Editor:

The pivotal states perspective that Robert S. Chase, Emily B. Hill, and Paul Kennedy advocate is seriously flawed as a guide for U.S. policy toward the developing world ("Pivotal States and U.S. Strategy," January/February 1996). It is reminiscent of the Nixon-Kissinger foreign aid policy that conflated fostering stability with bolstering regional hegemons. In the past, the identification of a regional power as a vital U.S. security interest—as with Iran, the Philippines, and Zaire in the 1970s—contributed to political repression, a misguided orientation toward American concerns, a corresponding insensitivity to popular demands, and subsequent instability. A central lesson of the history of U.S. foreign assistance is that when provided to buttress American security, it has often had a counterproductive effect on economic development, which should be the focus of U.S. policy.

The authors' greatest concern is that internal disorder will spread from the pivotal states, undermining the stability of the surrounding regions. But they understate the economic dimension of U.S. interests in the developing world. American prosperity increasingly depends on dynamic growth in developing countries, U.S. exports to which are growing nearly ten times as fast as those to the developed world. Economic growth in the North has historically trickled down to the South, but in recent years this relationship has begun to change. Growth in the developing countries in the early 1990s softened the effects of international recession on First World economies. Emerging markets will also be important investment outlets for the expanding private pensions of the baby boomers.

The authors' narrow focus leads them to conclude that the pivotal states are not currently receiving serious American attention. However, most of their pivots are on the Clinton administration's list of "Big Emerging Markets" that serves as a focal point of U.S. efforts to integrate developing countries into the world economy. Especially in relation to large and relatively prosperous countries, trade agreements, investment promotion, regional and international financial institutions, and debt arrangements can have a greater impact than bilateral aid. For example, the Brady Plan, named for Bush administration Treasury Secretary Nicholas Brady, restructured commercial-bank debt in developing countries, doing far more for Brazil's stability than any bilateral aid commitment. Brazil also receives some eight percent of total global

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multilateral development bank resources. India receives more than ten percent of the banks' concessional funds. These institutions have provided resources and technical support in excess of what the United States alone might have supplied.

Moreover, the triage approach Chase, Hill, and Kennedy favor would endanger the pivotal states. The new security threats—overpopulation, drugs and crime, environmental degradation—are transnational, and the pivotal states cannot be protected if their neighbors are ignored. On a recent trip to the United States, South Africa's first deputy president, Thabo Mbeki, warned that slashing U.S. assistance to Africa would result in increased migration, greater international drug trafficking and crime, and higher disease rates in his country. Increased aid to South Africa alone will not strike at these problems' roots. The United States should shift its efforts from bilateral aid to cooperation in addressing regional issues, and it should assist South Africa's less developed neighbors, which lack access to capital and cannot compete in the global economy.

Although some states in the developing world clearly deserve a disproportionate share of attention, U.S. policy should not proceed from the assumption that the chief threat to U.S. interests there is disorder in select states. The United States can best help the pivotal states by avoiding an alarmist fixation on their disintegration and by promoting regional economic development through a combination of bilateral initiatives and multilateral tools.

DAVID F. GORDON

Director, U.S. Policy Program, Overseas Development Council

To the Editor:

Chase, Hill, and Kennedy would consign most of the developing countries to an uncertain and probably dismal future. In fact, the world must devote a greater share of assistance to the most "marginal" nations. Concentrating aid on the states with the greatest economic potential is like sending coal to Newcastle. These nations receive the lion's share of trade and private foreign investment, and this private sector activity often overshadows aid. In the largest developing economies, aid can achieve only limited results, but in the poorest, smallest nations, economic growth is so stunted that foreign assistance is just about the only game in town. As one of the few notable sources of capital, aid can have a major impact.

Moreover, even the most apparently insignificant country can become a vital U.S. interest. Conflicts are contagious: as refugees flee to safety, the crisis may spread, requiring international intervention in the form of either peacekeeping forces or refugee aid and raising the stakes for the international community.

The developed world must dedicate itself to attacking the fundamental causes of instability: famine and malnutrition, poverty and slow economic growth, inadequate education and job training, rapid population growth, the depletion of natural resources, and the ineffectiveness of national governments in combating these problems. Such efforts may seem only remotely connected to the vital interests of the First World, but avoiding future Somalias could yield a large payoff.

PER PINSTRUP-ANDERSEN

Director General, International Food Policy Research Institute

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To the Editor:

The taxonomical ax that Chase, Hill, and Kennedy use to create their list of pivotal states is inadequate. They concede that it ignores modest flash points like Bosnia and Haiti, Rwanda and Burundi, Cambodia and Somalia—and where next?—but it also hardly alters U.S. foreign policy, already overly focused on some of their pivotal countries. Egypt, Pakistan, and Indonesia, for example, are among the largest recipients of American aid in both absolute and per capita terms. Moreover, most of these countries are too large and developed to benefit greatly from added dollops of official development assistance.

A budget-sensitive but less crimped alternative would, in choosing its targets, factor in the potential impact of aid, not only the supposed U.S. interests at stake. "Middle developing" countries, important for the stability of their regions and poised for economic growth—such as Vietnam, Kazakhstan, Ukraine, Romania, Zimbabwe, Côte d'Ivoire, El Salvador, Nicaragua, and possibly even Cuba and North Korea—could, with political will from within and concerted help from without, go a long way toward prosperity. The United States should divert funds from the aid-hogging pivots to these middle developing powers. To the Clinton administration's credit, it has paid them increased attention in recent years.

MARK C. MEDISH

Shintaro Abe Fellow, United Nations Development Programme

To the Editor:

How can a pivotal states strategy address the challenges raised on the cover of that same issue of *Foreign Affairs:* "Can We Control Nukes," "Exploding Cities," "Encroaching Plagues," and "Slow Growth Blues"? Unlike traditional adversaries, these threats are diffuse. They are global and systemic, not local or even regional. There is no focal point or easily identified enemy. The location and timing of a crisis—whether a terrorist attack with radioactive or biological materials, the emergence of a deadly influenza strain, the collapse of an emerging market, or a mass cross-border migration—are rarely predictable. Continued international efforts to develop effective monitoring and control regimes, strengthen international regulatory structures, redirect intelligence gathering capabilities, and invest in population control, international economic development, and domestic drug treatment will be more effective than a pivotal states framework.

MICHAEL D. WATKINS

Assistant Professor, John F. Kennedy School of Government, Harvard University

PRODUCTIVE DEBATE

To the Editor:

Robert Z. Lawrence's review oversimplifies several key tenets of my book, *The End of Affluence* ("The Slow Growth Mystery," January/February 1996). Lawrence argues that changes in the manufacturing sector do not explain America's economic decline, but in fact represent the key to its renewal. He accuses me of a preoccupation with a manufacturing model of the economy, pointing out that the real laggard in productivity growth has been the services sector. But manufacturing and services are linked, and their statistical separation is dubious. During the nineteenth and twentieth centuries, the

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mass distribution of goods as well as highly productive transportation, management, and marketing all benefited from economies of scale, and, contrary to conventional wisdom, productivity in services grew fairly rapidly until 20 years ago. Since then, however, it has been indirectly affected by international competition and shrinking manufacturing and directly affected by the fragmenting of markets and the loss of economies of scale.

The observation that productivity in the manufacturing sector has risen would matter more were manufacturing a growing or even stable segment of the economy, but it has contracted. Manufacturers have raised their productivity by lopping off less productive functions, sending them overseas, or dumping them into the sector statistically computed as services. If a manufacturer contracts out the trucking it once did itself, it raises its own productivity, makes it harder to raise the productivity of the services sector, and does nothing for the economy as a whole. And if manufacturing productivity is really rising so strongly, why are wages in that sector not going up equally strongly?

To buttress the claim that changes in manufacturing are all to the good, Lawrence argues that manufacturers would have stuck with standardized production were it more productive and that American consumers would have necessarily chosen the most productively made goods. But American business resisted flexible production methods, and had it not changed, it would have lost market share to competitors who had. Consumers wanted variety and higher quality, even at a somewhat higher cost. Innovations in management and technology allowed producers to cut costs on niche products and narrow the difference in price between the products of flexible and standardized methods, but they could never eliminate the differentials. Under flexible production, ongoing productivity gains are much harder than under conventional mass production, in which extra sales automatically lead to increased productivity.

Finally, Lawrence does not address the central argument of my book. Different business methods and intensified competition have raised the uncertainty of investing and doing business throughout the world, and thanks to these changes, the growth rate may never again reach the level it attained during the age of mass production and distribution.

JEFFREY G. MADRICK
New York, New York

Robert Z. Lawrence replies:

Jeffrey G. Madrick's rejoinder brings out precisely the objections I raised in my review. He claims, but offers no evidence, that the outsourcing of relatively unproductive activities accounts for the difference in the performance of the manufacturing and service sectors. While some outsourcing to services has occurred, the shrinkage in manufacturing's share of total output is too small to explain the differences in productivity.

Madrick's aside about the failure of manufacturing wages to rise as steeply as the sector's productivity demonstrates a fundamental misunderstanding about how wages are set. Since workers can work in any sector and firms can hire workers from other sectors, wages in a given sector do not reflect its productivity fluctuations. Over the past 50 years, for example, barbers' wages have had to rise to keep them

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cutting hair, even though their productivity has probably not increased since the invention of the scissors.

EURASIA'S MASK

To the Editor:

Although he notes Uzbekistan's appalling human rights record, S. Frederick Starr's admiration of that country's stability masks its crimes ("Making Eurasia Stable," January/February 1996). Uzbekistan's stability derives largely from the indisputable power of its president, Islam Karimov. In March 1995 a popular referendum to extend President Karimov's rule through 2000, bypassing scheduled elections, was approved by an implausible 99.6 percent of Uzbekistan's voters. Democracies survive regardless of who is head of state, but not so authoritarian regimes like Karimov's.

Starr contrasts Uzbekistan with its neighbors Tajikistan and Afghanistan, both still wracked by civil war, but he ignores its significant role in fanning the conflict in Tajikistan. And for the past three years, Uzbekistan has arbitrarily detained and harassed elements of its own Islamic community. The crackdown is sure to radicalize its victims and bring the country closer to civil unrest.

For the sake of the political prisoners who still languish in jail and for the millions unable to get a fair trial, hold a public rally, or read an uncensored newspaper, we must remain skeptical of Uzbekistan's claim that its human rights violations were a response to extreme circumstances and will not recur. Apparent stability is not the real thing, and no one should applaud it when it hides widespread repression.

ERIKA DAILEY

Research Associate, Human Rights Watch/Helsinki

PINING FOR POWER

To the Editor:

Michael Mandelbaum's analysis of the Clinton administration's foreign policy gives undeservedly short shrift to economic issues, including trade ("Foreign Policy as Social Work," January/February 1996). From the very beginning, Clinton made clear that he would focus on economic concerns in both his domestic and foreign policies, and he has a popular mandate to pursue a foreign policy designed to promote America's economic well-being. Whether Democratic or Republican, no future administration can fashion a foreign policy around the purely geopolitical definition for which Mandelbaum pines.

IRA WOLF

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Foreign Affairs (ISSN 00157120), May/June 1996, Volume 75, Number 3. Published six times annually (January, March, May, July, September, November) at 58 East 68th Street, New York, NY 10021. Subscriptions: U.S., $44.00; Canada, $54.00; other countries via air, $79.00 per year. Second-class postage paid in New York, NY, and at additional mailing offices. Postmaster: Send address changes to *Foreign Affairs*, P.O. Box 420235, Palm Coast, FL 32142-0235.

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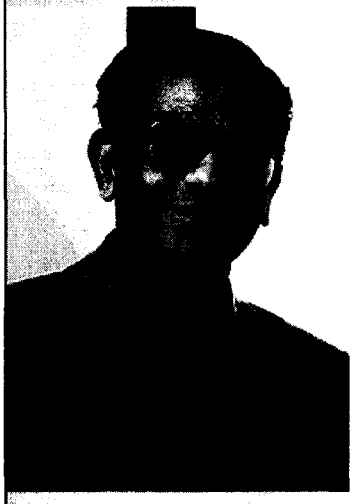
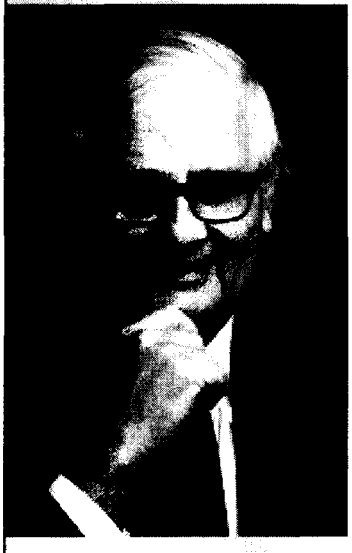
FAIR TRADE AND HARMONIZATION





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